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DEFENSE CONVERSION COMMISSION
WASHINGTON, DC

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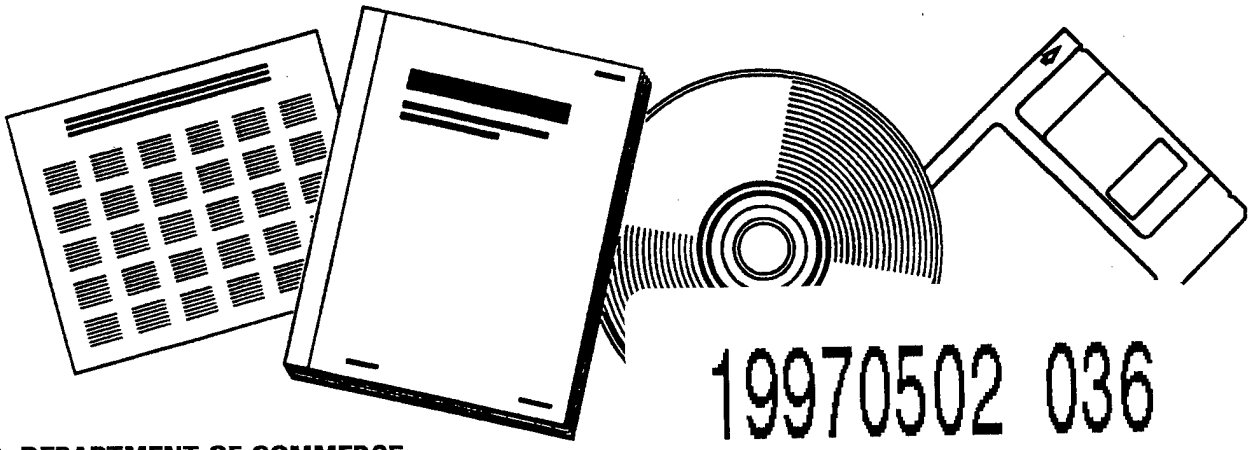

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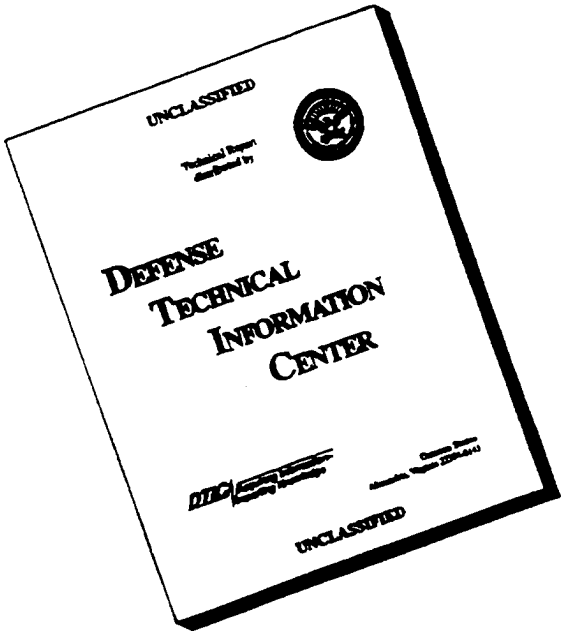

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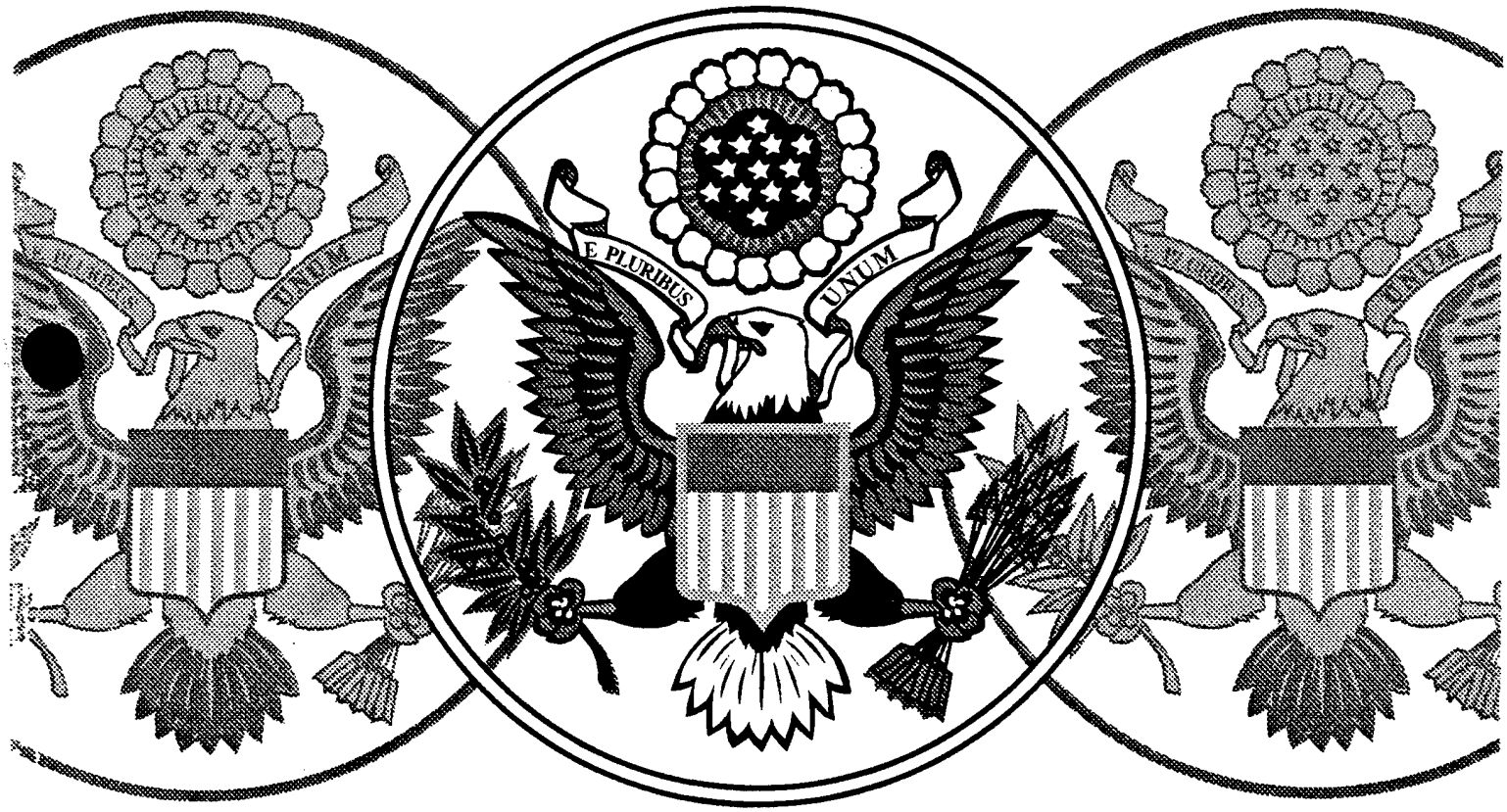
Transcripts of Regional Hearings

Groton, Connecticut



Annex L to
Adjusting to the Drawdown

Report of the
Defense Conversion Commission

DEFENSE CONVERSION COMMISSION

PUBLIC HEARING

September 17, 1992

Groton, Connecticut

OFFICIAL RECORD OF HEARING PROCEEDINGS

COMMISSIONERS PRESENT:

David J. Berteau, Chairman

Charles A. May, Jr., Commissioner

Carl Dahlman, Commissioner

L. Paul Dube, Commissioner

Robin Higgins, Commissioner

Michael Knetter, Commissioner

Douglas Lavin, Commissioner

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MR. HANLEY: I have a couple of administrative remarks, if you don't mind, and then I'll introduce the Commission and turn the proceedings over to the chairman. Number one, these proceedings will become part of the public record, and anybody who wants a transcript of them need only get in touch with the Commission. We'd be happy to provide that. The transcript is also available in large print and Braille for those who are interested.

The second issue is, we've got quite a tight schedule, and our experience is that we really need to move briskly through the agenda, so as to give everybody a chance to speak. We encourage you, if you have a written version of your testimony, would you please consider just giving us the written version and summarizing it for the Commission, rather than reading the whole thing through, so that the Commissioners can talk to you about it and get a discussion going. That's usually more profitable. Of course, if you'd like to read your statement, that's fine, too.

All the Commissioners are with us this afternoon. As you look at the panel, in the center is Mr. David Berteau, the Chairman of the Commission from the Department of Defense. And then, from right to left, Dr. Carl Dahlman from the Department of Defense, Mr. Paul Dube from the Department of Defense, Mrs. Robin Higgins from the Department of Labor. And then, to the Chairman's right, Dr. Mike Knetter from the White House President's Council of Economic Advisors, Mr. Doug Lavin from the Department of Commerce, and Mr. Charles May, also from the Department of Defense.

It's great to have everybody here this afternoon, and I'll turn it over to the Chairman, Mr. David Berteau.

CHAIRMAN BERTEAU: Thank you, Paul. I'd like to echo your remarks and welcome everybody here this afternoon. We also really appreciate the help we've had in setting this up and in getting the opportunity here for everyone to testify that will. We look forward to hearing from all of you today, including those who aren't yet here, who are scheduled later on.

Let me briefly describe what we're all about, so you all will know the context in which this fits. The Defense Conversion Commission was required by Congress and set up by the Department of Defense to review a number of areas and report on them by the end of this year. And I might point out, that's barely now three months away.

The three areas that we are looking at and which our report will focus on, is to review the impact on the U.S. economy of the defense drawdown; to review the potential for appropriate programs to help in retraining the people who are affected by that drawdown and being laid off; and to look at the things the federal government can do to help companies that have been dependent on defense to become more commercially viable.

As part of that review, we are visiting locations around the country where there is a large impact as a result of the defense drawdown. This is one of six where we're having these field visits and hearings. And we picked them specifically to focus on

areas where the impact was the most significant.

We know how bad this area is hurting from the draw-down, and we know that the impact is large, and also that this area is somewhat unique among the six areas we're visiting in that the overall local economy is not as large and diverse as it is in some other areas, which focuses the impact perhaps even more specifically.

It's a sign of the importance, I think, of this hearing that this is the first hearing at which all seven commissioners have been able to be present, and many of them did some last-minute adjustments to their schedule in order to be able to be here.

I would also note that it is not our task to recreate the past, and to make it different than what it is. What we're here for is to focus on where we go from this point on. And to do that, what we're hoping to get from the people who testify today is their experiences and their input as to what lessons we should be learning, what the federal government should be doing, what the appropriate role of the government is, what changes should be made to existing programs or existing laws, what new programs or new statutes might need to be examined, or even what we should quit doing, because in some cases the best thing the federal government might be able to do is get out of the way.

It is a heavy schedule. It's very intense this afternoon. I want to thank you all in advance for your cooperation in sticking to the schedule. I also would echo Mr. Hanley's comments that we as a commission would appreciate it if those witnesses would leave a little time at the end so that we can ask questions to help make sure that we clarify points and get what out of it the maximum benefit that we can today.

With that, let me thank you and let's go ahead and go with our first witness.

MR. HANLEY: All right. The first witness is David G. Assard of Textron-Lycoming.

Mr. Assard, welcome. Did I say your name correctly, sir?

MR. ASSARD: Yes, that's correct.

MR. HANLEY: We look forward to hearing from you. You may begin.

MR. ASSARD: Thank you very much. Mr. Chairman and members of the Defense Conversion Commission -- yes, you did pronounce my name correctly. It's David Assard. I'm President of Textron-Lycoming, Turbine Engine Division, which is located in Stratford, Connecticut. It's called the Stratford Army Engine Plant. And I must say it's a pleasure to have the opportunity to testify before this Commission.

I do have a prepared statement, and I ask that to be a part of the record at this time.

CHAIRMAN BERTEAU: It will be.

MR. ASSARD: Thank you, Mr. Chairman. I'd like to discuss with you this afternoon the status of the Stratford Army Engine Plant, and the alternatives to keep the business and employment level stabilized. I think that history will show that it is in the nation's best interest to secure and maintain a balance of expertise that goes all the way from the factory to the foxhole.

Clearly, the need for a high level of sustainment of all participators who are contributing to the military strength is neither feasible nor justified. However, I think a realistic base from which we can spring into action is indeed essential. All logistics

streams that lead to a weapon or a system in the field, therefore, needs to be maintained at some level.

In the past, distribution of funds between research and development, procurement, and overhaul and maintenance has changed at the expense of procurement. Procurement went down much further than the rest, and they are projected to be at levels substantially lower than they were in the 1980s. With these limited funds, the O&M portion must be carefully authorized and appropriated, such that an equitable balance is maintained between the military depots and the contractor base. I believe that our nation can ill afford to lose either if we are to maintain a meaningful response capability in time of need.

The Stratford Army Engine Plant is a national asset and has had a long history in support of military programs. The plant is a government-owned and contractor-operated facility. It is laid out to manufacture gas turbines for both military and commercial use. It is located on 77 acres on the Housatonic River in Stratford, Connecticut. This manufacturing complex has 1.5 million square feet of manufacturing floor space. We have 35 engine test cells, which provide us the capability for full engine testing of turboshaft, turboprop, turbofan, and industrial turbine engines.

We, like other full-service suppliers, have internal capabilities which would be difficult, if not impossible, to duplicate under one roof quickly. They range from technical design and development capabilities to test, to specific labor skills such as spin lathe operators, fusion welders, gear cutter, flame spray operators, among others.

Textron-Lycoming currently employs 3,300 people in Stratford. We support a supplier base of another 8,700 jobs. And together, with economic support to the community, Lycoming is responsible for 24,000 jobs.

Now, throughout the 1980s, both the Army and Lycoming worked together, and they jointly invested over $440 million in the facility for modernization. This partnership resulted in a modern, totally integrated factory, capable of producing 3,000 turbine engines a year. At the present time, Lycoming has been directed by the Army's Tank and Automotive Command, to take a facility capable of surging to 180 tank engines to month, which we are currently sized at, and to resize that to a capacity of 90.

And in response to this direction, Lycoming is right-sizing the Stratford plant to meet these requirements, and to continue to produce our other military and commercial engines.

Our estimates suggest that we have to sustain a rate of 17 new production engines a month in order to satisfy the FMS requirements and other sales that are necessary, and that this minimum rate will ensure retention of each of the manufacturing processes that are required in the future. And the minimum number of skilled employees capable of operating these processes will also be maintained.

Should the tank engine line be shut down, it will require approximately four years to replace. The right-sized Stratford facility must be operated at roughly 300,000 standard hours to permit the plant overheads to be absorbed and still produce an economically competitive commercial product.

Should the 300,000 hours not be met, the commercial product could not be produced competitively. And this would have to be moved or sold. In this event, the

overhead burden would have to pass on to the military product, possibly making them, too, unaffordable.

Now, in order to address this needed capacity, Textron-Lycoming are taking several measures. I'd like to summarize these briefly.

First, we are right -sizing the Stratford plant to balance our surge capacity requirements with a need to operate on an economic level. The United States Army right-sizing team is at our plant right now as we speak. We are also reloading the factory; that is, we are returning those components which we previously had broken out on a make-buy decision, back into the plant to support this broad spectrum of capabilities.

We are establishing a mentor-protege relationship with selected suppliers, many of whom are small businesses, to ensure reliable supplier quality and stability. We've signed an agreement Rolls-Royce to develop key components for a new commercial engine and are actively pursuing a large customer.

We have technical development programs that are under way to develop the next generation of small turbines for the 21st Century, in order to help to assure the long-term sustainability of Stratford as a technological resource. We're working with General Electric to develop the next generation heavy army vehicular gas turbine, the LV-100.

We are aggressively pursuing foreign military sales, encouraging offshore investments to stabilize employment in Stratford. We have submitted an unsolicited proposal to the U.S. Army in Europe for contractor logistics support of all tank engines of Europe, which promises to provide 40 percent savings to the field commander. And we are awaiting their response.

We submitted an unsolicited proposal to the U.S. Army Tank and Automotive Command to service 1,200 tank engines at the Anniston Army Depot, that have been returned from Operation Desert Storm. And we are awaiting that response.

And finally, we submitted an unsolicited proposal to the U.S. Army to upgrade tank engines with a performance recovery program consistent with the DOD's technology insertion policies, and we are awaiting that response.

To permit us to maintain our position, some of these initiatives must come to fruition. We are not idly standing by and asking the government to support us, as I think I've demonstrated, nor are we asking the government to spend more money, but rather to carefully allocate those funds that are currently available. Taking into account the art of the practical, I do have some recommendations.

First, recognizing that as military budgets continue to shrink and the bulk of the reductions are appearing in the procurement sector, we believe that an equitable balance of the available funds in the O&M accounts between the depots and the contractor will assure the economic vitality of the Stratford facilities and others like it.

Second -- and this is of critical importance -- we ask for the Department of Defense support to change the laws governing depot work competition. The present statutes are detrimental to preservation of the contractor base capable of performing defense product original equipment manufacturing functions.

Third, we ask for government support of our efforts to sell our products to foreign military customers around the world.

Fourth, we ask to encourage the U.S. Army to sign up to a commitment of

standard hours on a yearly basis to help stabilize the critical skills base at Stratford and fully support their surge capacity requirements.

Fifth, we ask to encourage and support commercial use of government-owned tooling.

Sixth, we recommend use of Stratford excess capacity to physically co-locate Lycoming suppliers under the same roof. And taken one step further we offer use of the space to other manufacturers of nonrelated products.

And finally, we ask to establish a formal government facility in the area to assist those skilled and unskilled workers to retrain and learn new processes to obtain new employment.

So, in conclusion, we are actively working to increase the size of our commercial business base, including efforts to launch into new applications and markets for our products and our capabilities.

We are vigorously attacking the international market for new sales opportunities of existing products and new markets. We're taking strong measures to improve efficiencies. We are aggressively pursuing right-sizing of the Stratford Army Engine Plant. We are actively working with the Connecticut Commission on Business Opportunities to find new outlets for our products.

At this point, I'd like to particularly thank Joe McGee and his Connecticut Department of Economic Development for his support to date. I don't believe he is here, but I believe his deputy, Bob Santy, is here, and I'd like to thank him as well.

And then, finally, we're here in front of the Commission today presenting our situation, suggesting solutions, and soliciting your support. Thank you for your attention.

CHAIRMAN BERTEAU: Thank you, Mr. Assard. Let me ask a couple of questions, if I could, and then perhaps some of the other Commission members may have questions as well. In fact, I have a whole host of them.

The first question I would ask you -- with your indulgence, what we may do is communicate further with you after we've had a chance to look at your full written statement on some of those things.

With respect to the changing of the laws governing competition and the competition between the public maintenance facilities and a sector such as yourself, do you think that those laws should be completely open -- in other words, that we should remove all restrictions and go to 100 percent competition? And is that the best way to retain the balance that you mentioned up there? Or is there some point short of full and open competition on everything that would be the right place to stop?

MR. ASSARD: Let me first make a comment, and that is that you would like to extend this further. I would certainly look forward to that. In answer to your question, Mr. Chairman, I think that the present law, as I understand it, says that 60 percent of the overhaul and after-market support needs to come from Army depots. It suggests that 40 percent can be competed. I believe it demands that 10 percent of that 40 percent must be competed. I think the only change that's necessary is to have that done by the each's.

Just as an example, 40 percent of the engines that go through Anniston, we

1 don't get. So I think if we changed to include each's and broke that out in that manner, it
2 would be more equitable. And the balance would be maintained.
3 CHAIRMAN BERTEAU: Instead of in the aggregate?
4 MR. ASSARD: Yes.
5 CHAIRMAN BERTEAU: Okay. I understand. Secondly, you mentioned
6 that a number of times -- and mentioned some specific statistics about the need to keep
7 the government base, in terms of the standard hours being worked, et cetera, in order to
8 keep you competitive commercially on the commercial side of your business. And I
9 assume you arrived at that through your own analysis, et cetera.
10 Are there any things, in terms of the government support, of letting you use
11 the facilities and the tooling for commercial items, that would change that number, so that
12 in fact the government base would be lower and you'd still be commercially competitive?
13 And is that included -- those ideas included in some of your recommendations, sir?
14 MR. ASSARD: I think, Mr. Chairman, my comment was largely based on
15 the situation as we see it today.
16 CHAIRMAN BERTEAU: Okay.
17 MR. ASSARD: As time goes on, the situation will change because the
18 transition period that is required, and the amount of time that is required to transition, will
19 give us opportunities that I can't see right now. We don't have visibility into that. So
20 what we need now is a transition period. And during that transition period, I think the
21 equation, as I stated, is pretty well stated.
22 CHAIRMAN BERTEAU: Right. Well, I think that your company's
23 situation is very intriguing to us for two reasons. One, that you clearly are pursuing both
24 commercial work and military work, and in many ways it is the same technology and the
25 same engine. And you're doing it in a government-owned facility, which makes you sort
26 of doubly unique, if you will. So, we look forward to looking into that more with you as
27 we go along here.
28 Does anybody else have any other questions they would like to ask Mr.
29 Assard at this time?
30 (No response.)
31 CHAIRMAN BERTEAU: Thank you very much, sir.
32 MR. ASSARD: Thank you very much.
33 MR. HANLEY: Thank you, Mr. Assard.
34 The next witness is Mr. Michael G. Franklin, executive director of
35 SEATECH. That's the Southeast Area Technology and Development Center.
36 CHAIRMAN BERTEAU: Hopefully you can summarize it, and we can
37 have some time to ask a couple of questions as well.
38 MR. FRANKLIN: Sure. It's not that lengthy, so it won't take me that long
39 to go through it, Mr. Chairman. And I'm not going to cover all the information, the
40 background, the last two pages of background information -- you can go through that --
41 which will give you some background of SEATECH.
42 CHAIRMAN BERTEAU: You need to make sure you get that mike fairly
43 close to you there, not only so the folks in the back hear, but so that we hear as well.
44 Thank you.

MR. FRANKLIN: First of all, I appreciate the opportunity to present to you, Mr. Chairman and the committee, my thoughts and ideas relative to diversification. I am representing myself and the Southeast Area Technology and Development Center. A little background on myself, of how I became Executive Director of SEATECH should be helpful in understanding my concerns and ideas.

I am an individual that was a private business owner, that was directly affected by the defense cutbacks in our region. Four years ago, I had the most fail-safe business plan of any builder/developer in this region. At peak times I employed 35 persons directly and kept busy another 150 persons through subcontracting. My business focused on high quality, expensive jobs. In the late '80s, I saw the writing on the wall and started to refocus my business towards affordable housing. An extreme amount of time, money, and effort was invested, and the results of this effort were the following.

I was involved in and had contracts for 300-unit family housing, $25 million contract with the Navy, a 90-unit affordable housing project worth $8 million with the State of Connecticut through a local nonprofit, a 50-unit $4.2 million national demonstration project endorsed by Fannie Mae, FHA, and the National Homebuilders. This demonstration project was to display a first-time creative financing concept designed by myself that achieved affordability for first-time buyers.

All three projects were fully designed, approved, financed, and ready to be built. On project number one, which was the Navy project, after three and-a-half years of R&D and design and several hundred thousand dollars invested, the Navy pulled the rug out from underneath this project two days before it was insured to go forward.

Project number two. After four years of much the same and also several hundred thousand dollars invested, the state, lacking the confidence in our local economy, did the same.

Project number three. Since all my resources were consumed in the above projects, I no longer had the reserve funds to pursue the last project mentioned, which had national implications. Not only did I not have the funds to pursue my final project, but this lack of funds did not allow me to pursue any recourse against the Navy or the state, which I feel I was seriously aggrieved.

Due to the above events, I was forced into bankruptcy and have since lost everything. The results of these events was my application for executive director of SEATECH. As of April of this year, I've been serving the region on a proactive basis in the diversification effort as SEATECH's executive director. SEATECH is a regional, small business incubator in the State of Connecticut Business Outreach Center. Background information on SEATECH is attached. I will not go through that at this point in time.

I am now in the position in which I may correct the mechanics of this eroded job market which is staring us right in the face in critical proportions. Two points that I would like to stress with the Committee have an intimate experience in creating jobs and what's it like to be put out of business by circumstances completely out of my control are:

We have organizations, infrastructure, highly-developed technologies, and a skilled workforce in place. This should be the focus and a place for investment in order

to develop the jobs of the future. One program comes to mind that should be expanded upon that would utilize existing infrastructure that exists throughout the United States. This program is the Department of Defense Procurement Technical Assistance Cooperative Agreement Program.

Originally, this program was designed and legislated when DoD was expanding. The program design was to assist local communities in technical assistance so that they could take advantage of the expanding DoD contracting. This program is presently funded for around $9 million a year. This $9 million supports 93 centers across the nation.

The legislation is now being revised to increase funding and change the focus of the program. When we are talking billions of dollars for the diversification effort, to increase funding for an already-existing program by mere millions makes more sense. We are all very aware of -- we all know in our economic development efforts, it is sure easy to help an existing company grow than to start a new venture.

Not only should the funding be increased to the requested $25 million, but the legislation should also include DoD, non-DoD, state, local, and international procurements, bearing in mind that the infrastructure of the future will be in systems, information, data, and the speed in which we can deliver those data to our companies. The speed in which we deliver this information will give us, the United States, the competitive advantage in global markets.

The new markets are global. And we need to put in motion the infrastructure that will enable us to take advantage of these markets. We have the technologies to compete on global terms, and these technologies need to be transferred from defense to commercial applications, along with the proper and expeditious information of where the markets are.

The final item and the other item that should be seriously considered and rethought is the manner in which defense diversification funds are allocated. The lion's share of these funds in the past have been allocated towards retraining of dislocated workers.

As far as I am concerned, this process -- excuse my French -- is ass-backwards. In order to create jobs, you have to put the mechanics of these efforts in place correctly before you can expect results. With the recessionary economy, what jobs are these retrained workers filling? In order for the diversification funds to have any effect, jobs must be created. You need to create jobs prior to any retraining. The federal government should seriously consider a strong focus towards public-private partnerships.

The solutions to our economic woes are not going to come from Capitol Hill, as much as the politicians will take credit for it when it does.

The knowledge, experience, new technologies, new products, and business management is already developed and sophisticated enough to compete in global markets. And we need to come up with the proper programs that will support entrepreneurial efforts and utilize developed expertise.

Once again, I thank this Commission, and I welcome this time for any questions.

CHAIRMAN BERTEAU: Thank you, Mr. Franklin. By any chance, was

your housing project what used to be referred as Section 801 housing?

MR. FRANKLIN: Was my national demonstration project?

CHAIRMAN BERTEAU: No, the Navy housing project.

MR. FRANKLIN: 801 lease program, correct.

CHAIRMAN BERTEAU: We could spend all afternoon on that. We won't take the time this afternoon to do that, but some of us had some similar frustration in that regard. I'm interested in your comments about the procurement technical assistance centers and the idea of building upon that structure that's already there and expanding that. Have you had some experience, or have some of your organization had some experience with those centers? Are they working well? Do they make a good base to expand?

MR. FRANKLIN: Presently, Connecticut does not have a procurement technical assistance center. SEATECH, which is the Southeast Area Technology and Development Center, is in the process of trying to establish itself as one of these centers. In that effort, I have contacted and had communication with several of the other centers throughout the country. I'm even meeting tomorrow the gentleman who wrote the legislation. And it seems to me that even, whether you're on a local, regional, or national effort, that utilizing infrastructure that's already in place sure makes a lot more sense than trying to create new ventures.

And the technical assistance centers, the ones I have been in touch with, have been very successful. The focus of the original program was DoD technical assistance and contracts. The refocus should be for all markets, including international.

CHAIRMAN BERTEAU: In private sector as well as government?

MR. FRANKLIN: Exactly. It should stem from DoD contracting, so that the DoD contractors still maintain, you know, a percentage of their sales within that. It should focus on non-DoD contracting, which the federal government does, so that the defense contractors can expand their markets in the commercial -- and also other contractors, or manufacturers, or enterprises that aren't aware of it. It should also tie in with state procurement, local procurement, and there should be an avenue for international procurement also.

CHAIRMAN BERTEAU: And do you think DoD would be the best one to run that, given that it would go well beyond DoD in terms of its reach?

MR. FRANKLIN: Well, I think that when you're talking it going beyond the DoD reach or capabilities or something, you're only talking about data. And the systems are already in place, and these centers already have the systems and the data banks and that type of thing. So all you have to do is deliver that data in the proper manner to these centers, and you'll be able to expand that procurement opportunities well beyond DoD contracting.

CHAIRMAN BERTEAU: I'm impressed with your optimism, especially given your experience with the Defense Department that you described in your history here. But I think that, in all seriousness, those ideas are well worth looking at.

Any other questions?

MR. FRANKLIN: All I can say is, I get up every morning with a smile on my face and go to work very hard.

CHAIRMAN BERTEAU: In the business you're in, you've got a lot of

business left. You don't have to worry about it running out any time soon. Thank you.

MR. FRANKLIN: Thank you.

MR. HANLEY: Thank you, Mr. Franklin. Our next witness is Ms. Naomi Otterness, who is the District Director for the Office of Representative Sam Gejdenson. Incidentally, if I mispronounce anybody's name, I hope you'll feel free to correct me.

CHAIRMAN BERTEAU: Ms. Otterness, we welcome you, and we look forward to your statement here. You may proceed.

MS. OTTERNESS: Mr. Chairman and members of the Commission, thank you for this opportunity to make this statement before you today as you appear here in Groton, Connecticut. As you know, this is within the second Congressional District of Congressman Sam Gejdenson. As has been stated, I am Naomi Otterness, who is the Congressman's district director. And I am here to make a statement on his behalf. As will also be noted, he is looking forward to meeting with you October 1st, when you are convening your hearing in Washington, D.C.

From our point of view, without a doubt one of the most critical issues facing us is, how do we maintain economic viability in communities that designed and built the weapons that won the Cold War? Obviously, we all know that we are in the middle of a recession nationwide, and on top of the recession, we're having additional cutbacks here in Connecticut. And probably many of you have seen the same statistics that I have, that show New England probably to be in the deepest recession that we've been in, in many of our memories. And probably, the prognosis for coming out of it is that it will be slow and arduous, under the best of circumstances.

And we in southeastern Connecticut feel particularly hard hit because of the extreme defense dependence that we have. There have been people who have stated that probably using a multiplier effect, 60 percent of our local jobs are in fact dependent on defense expenditures. The State of Connecticut -- it was estimated in the New York Times on Sunday that Connecticut will be hardest hit of any of the states with a 2.3 percent job loss between 1991 and 1997, because of defense cutbacks. This is just for background purposes, so that you are aware that we are very much concerned and very much aware of potential job loss here in southeastern Connecticut.

However, just as we, our nation, will not turn its back on communities in Florida, Louisiana, and Hawaii, which have recently suffered the wrath of hurricanes, we cannot and will not abandon the hardworking men and women who are suffering the loss of jobs and homes from devastation thrust upon them from cuts in the defense industry.

Since 1985, the Congressman has been seeking ways to diversify and strengthen the local economic base. The community has been proactive in developing initiatives, programs, organizations, and cooperative agreements designed to mobilize our highly trained and motivated workforce, and to transform our technological resources into new business opportunities in the commercial sector.

I know that you have been meeting with many representatives of the local community, and I am sure that they have given you background on many of the initiatives in this area, so I will not dwell upon them. But I do want to remark a little bit on SEATECH, since that was, in fact, a project that grew out of an initiative that started back in 1986.

And, hopefully, now with more focus on the issue of diversification and conversion, we can move projects along much more quickly than we have been able to move this particular project. But I am happy to say that it is up and running under the leadership now of Michael Franklin as the director, and I feel it's very viable and serving a real need in the community.

But, I'd like to emphasize that we see that it's only a beginning of an effort, and only a project that demonstrates, in fact, that there are means of assisting new businesses and entrepreneurs, and that this could serve as a model to go along with many other initiatives that I think are necessary.

Since we have taken so many initiatives at the local level, it really has become apparent that there is going to have to be an effort far beyond what the local community is able to muster in terms of financial resources, and even the state. And we very strongly believe that there has to be a strong federal component, and assistance, for southeastern Connecticut and other communities like ours, as we're going through this downsizing.

You may be aware that last year there was an amendment to the Department of Defense Bill, which allocated $200 million for defense diversification. And, as Michael noted, $150 million was allocated toward worker retraining, and $50 million for EDA. And this has been a program that we have been able to access in our local community, and it has enabled us to take some additional initiatives. However, $200 million is really a drop in the bucket compared to the real need.

I guess I tend to look at it that you have to have the two running in tandem, worker training and new initiatives. EDA is an excellent organization, and they have been, I think, intelligent in how they disburse their $50 million. But one of the shortcomings that we have found is that there is little opportunity through federal programs to have businesses assisted directly -- that's it's been -- EDA, obviously, is indirect, since it's public works type of money.

We've been more fortunate with the State of Connecticut, and Joe McGee's name has been mentioned here, and Governor Wiecker, who have worked with the legislature and appropriated $25 million at the state level for diversification. And that money is much more easily accessible for direct assistance to businesses who have a viable product, who have a technology that is applicable for the commercial market. And I'd like to see some work on programs at the federal level where we could also access funds directly for businesses.

Locally, we've also taken some initiatives, which -- you probably have heard some discussion about the coalition which was formed last year, bringing together interested parties in the community, which has now formed the Regional Economic Development Corporation. We hope through that corporation to continue to initiate programs to assist entrepreneurs as they are looking to develop new businesses and also, in addition, to be able to better market our area.

One other initiative that came out of the coalition has been the Mystic Coast and Country Travel and Leisure Council, which is focusing its efforts on increasing tourism into southeastern Connecticut. I trust that you have all had some opportunities to visit our community, which we refer to as God's country here. And we feel we have a

region to sell and one that is certainly one that people would like to visit, and we could increase tourism into our area.

And much effort, in fact, has gone into several new projects, coupled with the fact that we now have the new Indian gaming casino in Ledyard, which is my town. Nobody ever knew where Ledyard was before, but now all of a sudden we're on the map. But they're looking to transform that into a major resort center.

As a result, I think it's helped our employment statistics, because we have not had the job loss that we anticipated. But we also strongly feel that we want to maintain our manufacturing base. We've got the workers, we've got the technologies, and we ought to be able to utilize that to maintain this manufacturing base that we have. And certainly we welcome the efforts in the tourism area and feel that together that goes to making a more diverse economy, which is what we're looking for.

The major reason for the reduction in defense spending is, obviously, the dissolution of the Soviet Union and the reunification of Germany. Therefore, why are we spending billions of dollars to maintain a presence in Europe to defend these wealthy, prosperous, industrial nations from their newly-democratized neighbors to the East? These dollars could be better spent on economic growth initiatives for the United States, and programs to maintain our industrial base through diversification and conversion, through infrastructure improvements, and development of the technologies of the future.

The Congressman has recently introduced legislation to require that if the President cannot negotiate cost sharing agreements with NATO host nations, funds currently spent to maintain foreign bases will be redirected to provide aid to states and a renewed federal commitment to energy, transportation, and locally-initiated economic development.

Instead of paying basic operation and maintenance costs for United States bases in Europe, the industrial reinvestment in Defense Diversification Act of 1992 would provide $15 billion in aid to states, $2 billion for renewable energy research and development, $500 million for energy conservation, $1 billion for pollution control, $500 million for historic preservation, $1.5 billion for MagLev and other high speed rail development, $4 billion for mass transit, $1 billion for community development grants, $1 billion for economic development agency grants, $1 billion for job training, and create a $1 billion export enhancement program.

I think the export has been touched on here previously, and we see that this is certainly an area where we ought to be placing a lot more emphasis on our efforts within the federal government. ITA has some excellent programs, but if you compare our programs with those of even our neighbor to the north, Canada, we do not support our exporters to the same extent that other countries do. And I think there is an opportunity for us to increase our economic viability by increasing our export opportunities.

Obviously, I think we're the most high-tech nation in the world. And we have not fully taken advantage of that. All together, what I've outlined is $28.5 billion in funds to be available for our domestic economy, from reductions and expenditures in overseas bases. And I'm sure that Sam will give you more details on this proposal when you see him in Washington.

But just one point that I'd like to make is, one economist recently estimated

that bringing home 300,000 troops, each with an average earning of $25,000 a year, would inject $7 billion in initial buying power into the U.S. economy. And that assumes that these people are maintained within the armed services, that they are not thrown out into this recessionary economy.

Another bill that I have introduced is the defense community's Job Training Act. One problem we find is people are eligible only for job training after they receive a pink slip. As we know, we're going through a period of transition, and many people are going to be laid off. We would like to see programs initiated where people would be eligible for additional training, college courses, specialized technology, training, in order to be prepared to assume jobs in our new economy when, in fact, they leave their present job.

And there have been some proposals that are summarized here, also, on your information sheet, from the University of Connecticut, to work with them to initiate such programs, so that these workers, in fact, are better prepared to go out into the job market when, in fact, they are laid off from their job.

MR. HANLEY: Ms. Otterness, if you could sort of draw to a close. There are so many people who have so much to say. Thanks. And we look forward to hearing from Representative Gejdenson at the 1 October hearing also.

MS. OTTERNESS: Okay. Thank you. I'm almost through. Just a few more points. This year's defense economic adjustment proposals are now being formulated. There are some varying differences between what the Administration is requesting, what the Senate has for their proposals, and what the House has. And we're looking forward to some additional resources being available in the next fiscal year. The one number there does seem to be agreement on is the billion dollars that would be allocated towards diversification in the next year.

The one point I'd like to make is, all of us would like to see a silver bullet, some one big project that would rescue us and take us out of our economic woes. But I don't see that that is what is going to happen.

I think what we need to do is focus on many small efforts, assisting our entrepreneurs, assisting our defense contractors, our subcontractors, to help them develop technologies that can be moved into the commercial market. And coupled with that is, I know there are strictures now between -- which were mentioned by the first gentleman -- for defense companies doing non-defense and defense. And we have to find a way to ease this transition for our defense contractors.

And another thing I would like to see us work on is technology transfer. We know there are technologies which are currently within the defense industry, which would be applicable if we could get them into the public domain. And I know that some of them -- we have to be more concerned about others, but we have to find a process, because I know we have a company here that would like to manufacture electric vehicles, and it has been stated that there is technology already available within electric boat division that could enhance the ability of the electric vehicles, but that that technology cannot be transferred to the public sector. And we would like to see ways of helping that.

And again, the Congressman looks forward to seeing you in Washington on the 1st.

CHAIRMAN BERTEAU: Thank you, Ms. Otterness. We certainly look forward to hearing from him as well. I would, just as a note, point out that I did vacation in southeastern Connecticut earlier this summer for the first time in my life. And I can attest to the fact that this is a marvelous place to bring your family to and spend some time. That had no bearing on our decision to come back here and testify, but I appreciate your testimony in pointing that out. And we do look forward to hearing from the Congressman down in Washington as well.

Does anybody have any additional points or questions that they would like to raise?

(No response.)

CHAIRMAN BERTEAU: Thank you.

MS. OTTERNESS: Thank you.

MR. HANLEY: Thank you, ma'am. Our next witness is Mr. Robert Fromer, who is a private citizen. Mr. Fromer has been kind enough to provide us with a written testimony.

Mr. Fromer, we welcome you. We look forward to hearing from you.

MR. FROMER: Thank you. And I look forward to giving my testimony here, and it's a pleasure to appear as a private citizen to give testimony here today.

By way of background, I have a master's degree in Environmental Engineering. I have been employed by the U.S. Navy as a Naval Engineer for approximately 29 years, working in the field of submarines and undersea warfare. So I have a background and a knowledge of the area, and of the defense industry.

My testimony is going to look at things from a more radical approach. I'm going to look at it in a more macroscopic level, rather than getting down and getting caught up in the microscopic area. And I'd like you to give consideration to certain concepts, while not new, will probably evolve into the future.

My written testimony places into perspective the necessity for macroeconomic consideration from the transformation, from the defense-oriented community. Traditional economic models use a monetary based value system devoid of consideration for environmental effects. And may I make you aware of the fact that in Germany today, the economic system is being restructured to take into consideration environmental impacts on the value of the mark. It's a new approach.

My approach recommends more holistic energy-based value system, which inherently considers environmental impact. Such a system permits more realistic comparisons of alternatives in the planning process. Globally, there is a finite quantity of energy, and the effects of conversion require considerations of their international implications. Everything that we do in life, every life process, involves two major components: carbon and energy. No matter what we do, it involves those two basic components.

We no longer have the luxury of wasteful energy consumption. Unquestionably, the processes and the consequences of industrial transformation require some form of energy consumption. However, as a nation, we must plan for de minimis consumption of energy which provides essentials versus wants and conveniences, and I'd like to make you aware of a very simplistic equation which says that the total energy

consumption is the product of per capita energy consumption times the population. So, if this Commission encourages industries and businesses which, in effect, reduce per capita consumption, but on the other hand, encourage population increases and encourage consumerisms. The net effect is not a sustainable economic system where you have essentially zero rate increase in energy consumption. You now have a positive rate of energy consumption, and eventually we do ourselves out of business because we can no longer survive.

The question for this Commission is how to provide the conversion with the least energy expenditure. The government needs to assess and distinguish between the life essentials for human survival versus the nice conveniences which generate dollars.

For example, should the government incentivize industries developing and manufacturing equipment to convert solar energy into electricity, or fund the production of more tourist toys of dubious purposes and diesel electric submarines for sale to Third World countries? The former approach would render America independent of oil conglomerates. Let's face it, ladies and gentlemen: If foreign governments were selling cucumbers, would we be in the Middle East?

Obviously, the manufacture of such submarines depletes the global energy reserves and is wasteful and myopic. But politically, it produces jobs at any cost. Unfortunately, this would, in essence, continue the so-called Cold War, but in another form in another arena.

Let us face yet another reality. History has taught us that the ultimate purpose of business is to make money and fuel the engines of greed, pure and simple. This Commission needs to rise above such deductive considerations and place them into perspective. As Thomas Jefferson once said, "The least government is the best government."

Therefore, government should provide the climate, the planning, the direction, the leadership, and the incentives for conversion. Government should not become the marketplace. It should permit the laws of supply and demand to operate with full protection of public health, safety, and welfare. This can be best accomplished by supporting education, education, education for the retraining of America. That's a similar approach to the real estate market, which always says, "location, location, location." We need another Marshall Plan for re-educating America, and if you do that, all the other things will fall into place.

Finally, all government agencies, whether local or otherwise, which are or will be involved in the conversion process, must include a greater diversity of persons with differing interests. People such as myself, with expertise in the environmental field, are now deliberately excluded from the decision-making process.

A perfect example is the Regional Economic Development Corporation. People like myself, with expertise, who could do the balancing or provide the insight into the balancing between economics and the environment, are now deliberately excluded because of the national debate on jobs versus the environment. And it doesn't have to be an antagonistic "versus" situation. Really, we're all seeking the same goals, and we should work in an integrated effort rather than in a diverse approach, which is counterproductive.

To me, such discriminatory and exclusionary practices are counterproductive at best, and destructive of the ingredients that are necessary for the common good in this country. Essentially, this is a synopsis of my letter to this Commission, and if you have any questions, I'll be glad to answer them.

MR. BERTEAU: Mr. Fromer, thank you. I think some of the issues you have raised are an important part of the framework into which our ultimate report has to be placed. I would note that some of the areas you have touched on probably go a bit beyond our charter, if you will, in terms of the things that we will make recommendations on.

Are there any specific points that you think, within the context of retraining, for instance, that -- I mean, you focused on education, but I don't think I heard you advocating that the federal government should take over the responsibility for that, did I?

MR. FROMER: No. I think what the government should do is provide very much like the GI Bill of Rights did years ago. I think, first of all, this Commission should assess, in this area, and all the areas that you're looking at, what are the jobs; what are the educational requirements to those jobs; what is the future of industry and manufacturing and business in the country; what necessity for education there will be to support those jobs; and what's the differential between the educational system now, or the education now, and what's needed for the future?

And the government should provide incentives for people very much like the GI Bill of Rights, okay, to incentivize people to go to school so that, instead of taking money out of their pocket -- for example, I wanted to go for a master's degree in Environmental Engineering. I had to take out of my own pocket to educate myself, because I realized that when I was serving in Korea with the federal government in the U.S. Embassy in technical assistance to the Korean government, I came around to the very hard realization that, if I wanted to go into a new field, realizing that some day the defense industry was going to be on a down trend, that no one wanted me because I had a myopic focus in the submarine field.

When I came back and tried to go to school and tried to get the government to support me going to school for the environmental field, there was no money. So I had to take $12,000 out of my own pocket, because I did see the writing on the wall -- I was futuristic enough -- and I decided that I wanted to go to school for a field that I enjoyed. But the average American, the average person in this area doesn't have that latitude, doesn't have that money.

I think, if we're going to rebuild and retrain America, the key, the key, the one thing that no one can ever take away from a human individual, is their education. And I think that has got to be the model and the focus of this Commission.

CHAIRMAN BERTEAU: All right. Thank you very much, Mr. Fromer.

MR. HANLEY: Thank you, Mr. Fromer.

The next witness is Elanor M. LeCaine from Massachusetts SANE/FREEZE.

Ms. LeCaine, welcome.

MS. LeCAINE: Thank you very much. Nice to be here. Do you all have

1 the executive summary in front of you?
2 CHAIRMAN BERTEAU: I think we have it in our stacks here. If you'll
3 give us a second, we can find it.
4 MR. HANLEY: I'd like to thank you, Ms. LeCaine, for this executive
5 summary.
6 CHAIRMAN BERTEAU: Some of us are more efficient than others in
7 getting it on top. Okay, now we do.
8 MS. LeCAINE: Great. I want to thank you for the opportunity to be here
9 with you today. We're here to discuss the impact of defense cuts on workers and ways of
10 assisting those dedicated people who need jobs.
11 Defense lay-offs are exposing the severity of America's declining industrial
12 competitiveness and putting hundreds of thousands of people out of work. At the same
13 time, the United States and the world are experiencing mounting environmental problems.
14 And it seems to me a happy solution to both problems could be developing a national
15 policy to employ defense workers in environmental businesses, those companies which
16 engage in environmental restoration and pollution prevention.
17 So my testimony here focuses on what I believe to be the major growth
18 area of jobs for the United States, and the jobs of the future in environmental businesses.
19 Many of the workers currently employed in defense could find jobs in environmental
20 business, which is one of the fastest growing sectors in both the United States and the
21 world economy. Workers and companies in the defense industry already have many of
22 the skills needed to succeed in this growing field and could shift their focus from military
23 defense to environmental defense.
24 Environmental business is a wave of the future and is already making its
25 presence felt. I've been working very closely with Donald Connors, who is the chair of
26 the Environmental Business Council. He shares my understanding of the strength of this
27 growing field. It's absolutely extraordinary. The Environmental Business Council is
28 based in Boston, and it's a trade association of businesses in the envirotech industry. And
29 it's very exciting to see what's going on with that field.
30 Nationally, there's a report from the United States Department of Commerce
31 which shows that last year there were already 70,000 companies in the environmental
32 industry employing almost one million workers with sales of over $130 billion. It's an
33 industry that has yet to be recognized as an industry as such, but I think it's the healthiest
34 and fastest growing sector in our economy.
35 Swords are already being turned to plowshares, and more can be done in
36 this field. I think you already heard when you were in California about the story in
37 Burbank, where the Lockheed plant, which had been closed as a result of the cutbacks --
38 actually, the Lockheed plant reopened to build solar cars, with that whole Calstart, the
39 consortium of industry, university, and public officials coming together to build advanced
40 transportation systems.
41 They were initially going to build the solar cars, and down the road the
42 high-speed trains and the light rail. These are the kinds of critical programs which need
43 federal support to pave the way for the jobs of the future.
44 Another example of turning swords to plowshares was announced just last

week by Raytheon, where they announced a joint venture to convert a former Slovakian tank factory into a firm that's going to produce environmental clean-up equipment and road paving machinery. These are signs of the tremendous potential in this field.

Moreover, many of the researchers and scientists who have focused on the military are now free, for the reasons you know, to focus on healing the planet. There are great opportunities in pure and applied research, in science, engineering, technology development, and technology transfer. The defense sector has employed hundreds of thousands of highly skilled workers whose analytic and manual talents are directly relevant for the production and problem-solving needs in the environmental industry. And we could create an internationally competitive envirotech industry in this country, second to none in the world.

Some of these workers could, with little or no training, be placed in jobs in the private sector. But others could stay in military units that they are now in with a new mission of environmental restoration. Although the Department of Defense is not in the business, and should not be, of building the civilian economy, there are interesting possibilities of shifts within the military itself.

Many military personnel are highly trained, highly motivated, and highly disciplined. Instead of disbanding some of these fantastic units that have been developed, we could shift the mission, expand it to include environmental restoration.

An expanded focus could, for example, give new meaning to the Green Berets. We have already seen what some military units can do in disasters such as South Florida. Many more of these natural and man-made disasters will occur, and we can self-consciously prepare military units for such service.

One major area for the environmental business opportunities and jobs is in the clean-up of military sites themselves, which, as you know, is projected to cost hundreds of billions of dollars and create thousands of jobs into the next century. For example, in Hanford, Washington right now, there are currently 16,000 workers engaged in the environmental clean up there, which is more workers than were employed at the height of the weapons production.

There are other environmental business opportunities in both manufacturing and service sectors. One of the major areas is in the building of advanced transportation vehicles and systems, such as solar cars, high speed trains, and light rail. These will become increasingly important as auto emission standards become stricter. We've already seen it in Los Angeles. Other cities are following, and we've got, nationally, the Clean Air Act about to be enacted.

Donald Connors outlines other manufacturing opportunities. There is environmental equipment, including air and water monitoring and cleaning devices. There is marine electronics and technology, energy equipment, including photovoltaic cells, and consumer and industrial products, such as recycled packaged goods.

In the service sector, there are all kinds of analytical services, the laboratory and on-site testing facilities, energy and energy conservation consulting services, and professional services, such as law, accounting, and finance. Additionally, there is operational services, including solid and hazardous waste treatment, storage, transportation, and disposal. All these mean jobs of the future. The possibilities are endless, because

everything we do now, we can do more ecologically.

And the markets for these environmental businesses are worldwide. Environmental awareness has heightened around the globe, and people are responding through governments, consumer patterns, and corporate behavior. The demand for environmental clean-up is strong and increasing rapidly, as we recently saw at the Earth Summit in Rio de Janeiro. One hundred and seventy-two nations participated in the United Nations conference on environment and development, as well as tens of thousands of people from nongovernmental agencies.

International agreements were signed at this Earth Summit in Rio, which will significantly increase the demand for environmental goods and services around the world. Hopefully, U.S. foreign aid will assist some of these countries in meeting their obligations, thus creating even more environmental business opportunities.

We in the United States have an edge in this field, given our first-rate universities, our experience with trend-setting regulations, and our technological capacity. We must not lose our edge in this field, as we have lost in others. In order to capture our share of these world markets, we must act now. Action should be taken by the federal government to develop environmental business market opportunities, and create the jobs from that.

We have promising beginnings in this field that require encouragement, investment, and direction from national policy. I should say here, I think private firms should and will dominate the envirotech industry. But, just as with national security and the defense industries, these private firms are addressing public and common needs, and require government action.

Some areas where I think the government could participate here include supporting research and development in the envirotech industry, assist companies in identifying and capturing world markets, provide direct loans and grants for business start-ups and conversions from weapon production to envirotech industry, and develop export markets for environmental goods and services through the traditional export programs we already have, and through directing foreign aid for environmental cleanup.

There has been already some important legislation put forward addressing this line of action. Senator Barbara Mikulski recently introduced the bill which would redirect some public investment into the environmental and energy technology. Congressman Gerry Studds proposed a bill to set up a federal office that would assist environmental businesses in finding world markets.

Joe Kennedy introduced legislation to create an Office of National Environmental Technologies, in the Environmental Protection Agency that would give grants and loans to companies working on environmental problems, such as solar energy and fuel-efficient cars. All this legislation is good, and we can do this and more.

In closing, allow me to make a brief historical comment. Since the lend-lease programs in the 1930s, the military has been a central part of the United States economy. The Department of Defense has created whole industries, has provided jobs for millions of Americans, and has been essentially a substitute for an industrial policy. With the end of the Cold War, we have a remarkable opportunity to redirect those resources toward environmental healing.

If we focus on environmental industries, we can create wonderful job opportunities and address humankind's most pressing problem. Thank you.

CHAIRMAN BERTEAU: Thank you, Ms. LeCaine. I think what you have pointed out is something that is very important for us to keep in mind, and that is that it may well be that the greatest peace dividend that we get as a result of the Cold War being over is the creative energy and the capability that we have as a nation to pursue other pressing problems that are around. And I think that's a very important focus to keep in mind.

When we were in Southern California, we actually talked to the folks who were doing CALStart, and that's one of the examples that is certainly on our list of things that stand up there.

Let me ask you one specific question, because I think what you have outlined is a federal government role here that's not in direct competition with private firms. One area that I'm not clear on as to where that federal role would stop -- you've suggested that the federal government could make loans, for example to businesses. Is it your idea that those would be restricted only to businesses that came out of defense background, or how would you approach that?

MS. LeCAINE: No. I would make it broader than that, but include it for companies that have been involved in defense work.

CHAIRMAN BERTEAU: But not necessarily targeting former defense firms exclusively?

MS. LeCAINE: Not exclusively, no.

CHAIRMAN BERTEAU: Essentially, it will be equal opportunity based on some other criterion than whether you were involved in defense?

MS. LeCAINE: Right.

CHAIRMAN BERTEAU: What kind of criteria would you have to have to be eligible for those kinds of loans?

MS. LeCAINE: I think these are precisely the kinds of questions that we need to be focusing on. And I don't think it's the purview of this committee to get into that level of specificity.

CHAIRMAN BERTEAU: It's going to be hard, given the time we have, I guess.

MS. LeCAINE: Right. Exactly. But I think the main point is that we have these hundreds of thousands and millions of people and companies that have been in this area for so long. And what I'm pointing to here is the possibility of an equal number of business opportunities and jobs to come out of the environmental area. It's absolutely stunning, what's going on.

CHAIRMAN BERTEAU: We've seen some of that, and you've pointed out a number of additional things here, including a number of facts that had not come to my attention before. And I thank you very much.

MS. LeCAINE: Thank you, sir.

CHAIRMAN BERTEAU: Any other questions or comments?

(No response.)

CHAIRMAN BERTEAU: Thank you, ma'am.

MS. LE CAINE: Thank you very much.

MR. HANLEY: Thank you, Ms. LeCaine.

The next witness is Dr. Diane Disney, who is here in two capacities. She is representing herself as the director of the Research Center on Business and Economics in the College of Business Administration at the University of Rhode Island. And she's also here representing Governor Bruce Sundlun of the State of Rhode Island and Providence Plantation.

MS. DISNEY: All right. I'm passing out two sets of testimony here.

MR. HANLEY: Please take a little extra time, Dr. Disney, because I realize you are here in two capacities. And we signed you up in both of them and kind of tried to kluge them together here.

MS. DISNEY: That's fine. At least by putting them together, I didn't have to bring two outfits. It made life a lot easier. First, rank being what it is, let me give the testimony for the Governor, a somewhat abbreviated version of what you have in front of you.

As was indicated, my name is Diane Disney, and I'm director of the Research Center in Business and Economics at the University of Rhode Island. I'm here right now representing our Governor Bruce Sundlun. Since the Revolutionary War, Rhode Island's economy has been tied directly to the defense industry. This background has therefore made it very difficult for us to adjust to major changes, particularly the withdrawal of the naval forces in 1973. In fact, at that time unemployment hit 18 percent in our state.

Still, the state was able to enhance its tourism industry, as others have mentioned earlier, attract some more defense-related employers, and to prosper from the stock market and real estate boom of the 1980s. This boom, however, masked a fundamental restructuring of the economy. This was exacerbated by an erosion of the manufacturing base. As a result, the state was simply not equipped to cope effectively with defense spending cuts that began in the late 1980s.

When the Governor was elected two years ago, it was obvious that decisive action had to be taken to deal with our economic problems. But before dealing with defense issues, he was faced with a major financial crisis, one that led him to close 45 credit unions and other financial institutions. Therefore, our state had to face simultaneous emergencies in finance, a recessionary economy, and defense dependence in a time of shrinking resources.

To deal with the latter, the Governor's Office has taken action in a number of areas. He has directed major efforts toward attracting new business. But even attracting more private business than at any time since the establishment of Electric Boat in Quonset has not been sufficient to offset the decline of manufacturing, the loss of defense jobs.

There also has been a major emphasis on broad-based economic planning, as the written testimony elaborates. Further, he has appointed a business executive to coordinate all of the state's activities concerning defense adjustment. Finally, his office has encouraged the development of a state-wide strategic planning effort that we believe is unmatched anywhere in the country. That I will be describing separately.

However, I should mention that the study has already produced a few very telling statistics. First, more than a tenth of our employers have documented ties to the defense industry. As prime contractors, subcontractors, vendors to those, or as businesses that sell to the employees of the friends of contractors. Together, these account for about a third of our state's workforce. Even though most of these people are not working on building submarines or direct defense activities, nonetheless, their employment is still tied to defense spending.

A second important factor is that most of these employers are small. They typically have no more than 10 full-time employees, annual revenues of under $1 million, and only a single facility within the state. Therefore, their diversification options are seriously limited.

Another important factor is that 40 percent of the responding companies say that their ability to attract non-defense business is hindered by financial barriers and the access to capital, of course, exacerbated by the closure of our credit unions. Half of the defense related organizations said that they purchased at least half of the goods and services they needed from other Rhode Island vendors. Thus, we have a measure of the ripple effect in the economy.

Finally, as will be summarized in separate testimony, a fifth of the people filing unemployment claims in 1991 had worked for a defense related firm within the previous year. In other words, Rhode Island's fate is inextricably linked to the success of defense economic adjustment efforts.

The state has taken a number of steps to lessen the shock of this adjustment, but we clearly need help in several areas. First, for start up funds to support an industrial technology extension service at our state university, particularly to help small and mid-size businesses make the transition to the civilian marketplace. Second, for job training and career counseling funds to help defense workers, those who have not yet been dislocated, to adjust. And third, for changes in federal banking regulations that can increase the flow of capital to cash-starved businesses needing to develop new markets.

In short, the state's resources alone cannot meet the conversion needs. We need programmatic and financial assistance from the federal government. In turn, Rhode Island stands ready to cooperate with other states, local governments, private sector organizations, and Congress as the economy is redirected.

Thank you for allowing me to testify on behalf of the Governor.

CHAIRMAN BERTEAU: Dr. Disney, would you prefer that I ask a question about that testimony now, or are you going to cover a related area in your other --

MS. DISNEY: I'm going to cover a related area, because I'm --

CHAIRMAN BERTEAU: I'll let you go through that then.

MS. DISNEY: I'm filling in more statistics.

CHAIRMAN BERTEAU: Okay. You may answer my questions in your second testimony.

MS. DISNEY: Okay. We'll try. New person here. Since the 1990s began, Rhode Island's economy has been scuffling along in recession. My center, along with the Providence Journal, has created an index of leading economic indicators, and that

index tells us that we're not likely to recover in the short term. Much of this decline is directly attributable to cuts -- current and projected cuts in defense spending.

This job loss and uncertainty about what's going to be happening prompted us to develop the Defense Economic Adjustment Committee. The work of this committee, I must note, was stimulated by a grant from the Office of Economic Adjustment within the Department of Defense. That $100,000 has made an enormous difference, and our budget officer Helen Hines has been very helpful.

This money was supplemented by funds from our "Workforce 2000" council from the University of Rhode Island, and from a number of other sources, with notable help from our Congressional delegation.

Central to this was the identification of all of the defense related employers in the state. We were not concerned merely with the prime contractors and the subcontractors. We added to their names a listing of all of the firms selling goods and services to them, because the major prime contractors were willing to share with us their vendor list.

We added to that all of the other businesses known to work with defense related employees, and I can give you more information about how that list was compiled later. We ended up sending questionnaires to 3,400 employers in the state, with documented ties to the defense industry. I must stress that two-thirds of these are not prime or subcontractors, but they still have this relationship.

Now for some of the findings. Every community in Rhode Island -- every one -- is home to more than one defense related employer. Every single school district is also affected, as we know that prime contractor employees live in every school district. In 1991, approximately 86,000 Rhode Islanders filed claims for unemployment insurance.

By matching the unemployment records with our records, we were able to say that at least 14 percent of those unemployed people had lost jobs with the Department of defense prime contractor, subcontractor, or vendor. Another 5.5 percent had worked for such employer within the year. Over all, then, at least one-fifth of those filing for unemployment had recently been working for a defense-related employer. I say at least, because some of the names had such creative spelling, it's a little difficult to tell whether -- exactly who they were.

More men than women were unemployed -- 56 percent versus 44 percent. However, when we looked just at those that were laid off from defense related jobs, the gap widens, and it becomes almost two to one men. Given that men tend to earn larger salaries than women, we see a greater economic impact from this layoff. Over a third of the laid off defense related workers had at least one dependent, so we have a ripple effect in another direction.

About a quarter of them were under 30. They, we presume, will be resilient. However, 44 percent of those who were laid off from defense jobs were 40 years or older. Despite age discrimination statutes, odds are their age could work against their successful reemployment. About 1,100 employers commented in late '91 and of these, 42% commented that most or all of their workers would have difficulty finding other jobs, even if they were willing to leave the state. Individuals whose most recent employer was a DoD related firm, as I said earlier, lived in every city and town in the

state. However, 7% filed their claims from outside the state, suggesting emmigration is already an issue.

The picture painted by these figures is worsened by the fact the number of bankruptcy cases filed in RI grew from under 1,000 in 1988 to over 3,000 in '91. Thus, the likelihood of non-defense employers having the capacity to hire dislocated defense workers continues to diminish. Further, during the last quarter of '91 and the first quarter of '92, Rhode Island had the nation's highest delinquency rates on consumer loans.

Defense layoffs, the credit union prices, and the regional recession have combined to create sometimes crushing levels of personal debt. In short, then, the actual and projected cuts in defense spending represent serious problems for Rhode Island. To address these, the state has taken a number of actions, some of which I reported a moment ago. But a couple of other bear mentioning now.

In one, our state's Department of Employment and Training has collaborated with its Connecticut counterpart to secure Department of Labor funds to provide career transition help to the employees being dislocated from Electric Boat. Also, the state has applied to DoL for additional funds for a defense workforce adjustment program.

There have been other efforts as well, but clearly the state does not have the resources to do much more without significant federal assistance. Therefore, I request that the Commission seriously consider providing or recommending a provision of help in the following ways. First, funds to support an industrial technology extension service, particularly to help the small and mid-sized businesses.

Second, the additional job training and career counseling funds to help dislocated defense workers. Third, changes in federal regulations that can make it easier for state and local governments to cooperate across boundaries, because, as I've demonstrated, those boundaries are permeable in all other aspects.

Changes in federal banking regulations, as mentioned earlier. Our survey respondents cited access to capital as a major impediment to their diversification efforts. Everyone affiliated with the Defense Economic Adjustment Project in Rhode Island greatly appreciates the support already provided through the Office of Economic Adjustment and the Department of Labor. We ask that this support be continued, and, ideally, increased to help us meet short-term needs, while the state develops the infrastructure necessary for long-term adjustment and growth.

I thank you for the opportunity to present these figures.

CHAIRMAN BERTEAU: Thank you, Dr. Disney. This is most helpful. You did answer some of the questions I had from the first one as you went through the second one. This is an ongoing study?

MS. DISNEY: Yes, sir, it is.

CHAIRMAN BERTEAU: And what is your schedule for completion of this, or your next milestone, if I might?

MS. DISNEY: We hope to have a series of reports coming out over this fall. And I'll be happy to send copies of them to the Commission as they are released. In fact, I can give you copies of the executive summary of the overall report. I will have those mailed to your office.

CHAIRMAN BERTEAU: That would be great. I would appreciate that a lot. Does that include the survey results in it in more detail than you've laid out here?

MS. DISNEY: Oh, yes. In terms of the unemployment survey, I literally just got those printouts, ripped them off the printer, yesterday. So that report is not yet written, but the first one is.

CHAIRMAN BERTEAU: I recognize that's an ongoing process. And we'd love to be able to take advantage of that to the most we can. I think what we'd do is probably, after we've looked at those, we may follow up with you with a couple of other questions, specifically about some of the experiences that are portrayed here, and how we might learn from those a little better.

MS. DISNEY: We have a range of specialized studies that our initial data suggested to us were worth pursuing. In one, for example, we're looking at the impact of changes in military R&D spending on Equidnick (phonetic) Island. In another, a colleague and I are looking at the impact on the nonprofit sector, because a quarter of our United Way's money is known to come from defense employers.

CHAIRMAN BERTEAU: Right. All right. Any other questions or comments?

(No response.)

CHAIRMAN BERTEAU: We'll wait until we've gone through your papers, and then we'll come back to you.

MS. DISNEY: All right. Thank you.

CHAIRMAN BERTEAU: Thank you, Dr. Disney.

MR. HANLEY: Thank you, Dr. Disney. If you like, we can do Mr. Klein and then a break. Does that suit you, Mr. Chairman? One more and then a break?

CHAIRMAN BERTEAU: We're a little behind schedule, but let's go ahead and do one more and then take a break, yes.

MR. HANLEY: All right. The next witness is Mr. Ralph Klein, who is a staff engineer at SM Stoller Corporation.

MR. KLEIN: My daughter's coming with me.

MR. HANLEY: And daughter. I've done the same, Mr. Klein, and so I welcome both of you here today.

MR. KLEIN: Thank you very much. And my wife, obviously, thanks you. What I'd like to address to the Commission today has great bearing on my family. As I saw in one of the handouts that was provided to me, part of the purposes of the Commission is to address the needs of some of the displaced or dislocated defense workers. I am one of those workers.

The real reason for me providing testimony before the Commission is to present the views of people such as myself who have been terminated from defense industries, but were able to find new employment. And I believe that we are perhaps a large segment of the displace defense workers whose needs are not necessarily being addressed.

As I was introduced, I am now a consultant for the SM Stoller Corporation. We are a non-defense corporation providing consulting services to electric utilities all over the world. We are one of the leaders in the consulting industry in that

1 field. Prior to joining Stoller, over half of my professional career, I was employed in
2 industries once considered vital to the defense of the United States.
3 Most recently, I was a program engineer with UNC Naval Products in
4 Uncasville, Connecticut, where I spent three years in the production of nuclear reactors for
5 the U.S. Navy. Prior to coming to UNC, I worked for Westinghouse as a production
6 technology engineer at the Feed Materials Production Center in Fernald, Ohio. That was a
7 government-owned, contractor operated facility which was run by Westinghouse.
8 My family and I made a very difficult decision in coming to UNC. I had a
9 very secure job at Fernald, and at that point a very promising career. However, I was
10 confident in coming to UNC Naval Products for a number of reasons. I had always
11 believe that the government would take care of its defense workers. There would always
12 be employment in defense in the United States. I would be going to an extremely high
13 technology, very modern, well-maintained facility, one of only two such facilities in the
14 country.
15 There's a key there, because we'd always been told the government would
16 always have two suppliers. That was a very big selling point in coming to UNC. With
17 that decision made, we moved to Norwich, Connecticut in 1987, the height of the real
18 estate market. We still live there. However, Stoller is located in Westchester County,
19 New York, and I commute 116 miles door to door every day, and have been doing so for
20 over two years.
21 I had a number of job offers when I left UNC, some in the defense field,
22 some not in the defense field. But what sold me on going to Stoller was the ability to
23 commute there, in hopes that I'd be able to sell my house. I want to stress the fact that
24 it's a 116 miles of New York City and Connecticut highway commuting. At a minimum,
25 I spend five hours a day in the car. I've spent over eight hours a day in the car. I've
26 totaled one car going to work on an icy road. I've worn out another one. I'd like not to
27 have to do that for the foreseeable future.
28 It's financially impossible for us to rent our house. There's no rental market
29 in this area. And in selling our house, we've already lowered the price to well over 40
30 percent of what we bought it for. We are, as you can see, a young family starting out.
31 That's an area that's not necessarily being addressed in all of the newspaper articles I've
32 been reading about help to the defense workers.
33 I'm away from home 15 hours a day. That doesn't include time that I
34 travel, which is a large part of my job. I travel all over the world. So, there's not a lot of
35 chance to watch my children grow up.
36 I've heard a lot today about retraining defense workers in other fields. I
37 have a B.S. degree in Metallurgical Engineering. I have over eight and-a-half years
38 experience in a very high technology, high-quality precision manufacturing. I'm
39 proficient, obviously, in the use of personal computers. I am now working full-time.
40 Retraining is not an issue that at this point would help me in any way.
41 I think I'm typical of a lot of defense workers who have been laid off.
42 Some have been able to find work, have had their houses foreclosed on, so that they could
43 relocate to their new jobs. In other cases, they've left their families behind and come
44 home every few months to see them. I think it's an absolute tragedy that this has to go on

in the United States.

In addition, there are former workers from UNC, people with advanced engineering degrees who are working in bookstores, who are working part time in grocery stores, who are working in the casinos. This is not an answer, the answer of sending them off and getting them jobs in the casino will not help the United States.

Furthermore, I don't know if you've ever had to take unemployment. But in Connecticut, at our salaries, the maximum unemployment is approximately $200 a week. That doesn't make house payments in Connecticut. It doesn't put food on the table for families. It doesn't help raise children. The quality of life of people like myself have been significantly degraded by defense cutbacks.

When I first heard about the peace dividend, one of my coworkers made the statement that the peace dividend will mean that we can all starve in peace. And to an extent, that's true. When the first dividends started to be felt, UNC was one of the first industries to be hit. Fifteen hundred people were put out of work in a period of approximately a year and-a-half to two years. High precision, high quality manufacturing base gone. Workers spread out all over the country.

People talked about switching economies. Well, if you could build nuclear reactors for the Navy, you can build other things. You can build cars. You can build VCRs. That's wonderful. I think GM will be pleased to hear that there's another company manufacturing cars in the United States. The economy, local and global economies, have not grown to absorb a new commercial manufacturing base. So I think that that was a very shortsighted solution on the part of a lot of people.

The questions, I think, that the Commission needs to address, is how does the local communities compensate from lost revenues? Not only the tax base -- I think one of the problems is that the Commission and other people have always been looking at how the loss of the industry directly affects the community, and doesn't necessarily look far enough at how do the lost taxes from the workers who are now getting $200 a week on unemployment -- who were making $40,000, $50,000, and $60,000 a year.

How also would the local and national economies grow to absorb those formerly employed in the defense industry? If we're going to retrain workers, how do we make them the most useful to society? And while that retraining is going on, how does that employee put food on the table, pay the mortgage, and keep up that good credit rating that they've built up for earning large salaries over many years?

And last, in my case -- and I'm sure, in other people's cases -- we've been able to find other jobs. What assistance can be given to help us with relocating? Our companies will pay for the move. They're not buying houses anymore. Companies don't want to get into the real estate business. As I heard mentioned in one of the prior people testifying, there may not be a need for these make-work programs. There are already existing programs that defense workers can go to.

You talked about clean-up efforts at some of the weapons sites. The last estimate I saw -- I was just out in Richland, Washington, doing some work with one of the utilities out there -- I'm out near Hanford -- $50 billion to clean up the Hanford facility, current estimate. $2 billion to clean up Fernald. There are people that can be employed immediately in these efforts. And yes, they will have to be retrained, but yes,

1 they will also have to be relocated. And that's a real key.
2 The other work is -- and I keep hearing this Presidential election year -- is
3 preparing the infrastructure. I can tell you by first hand experience -- I spend a lot of
4 time on the roads, and they do need work. Engineers who will require retraining, but
5 when they're done working in Connecticut, they may have to move on. How will their
6 employers help them in getting rid of their houses, getting their lives going again in
7 another community?
8 As I said, it's an absolute waste that we have these very talented and well-
9 trained people, technical degrees, advanced degrees, out of work. When I grew up,
10 unemployment was only for people that were lazy, that had very odd skills that they
11 couldn't find jobs for. Today's unemployment lines are totally different.
12 I'm not an expert, obviously, but the recommendations I'd like to make --
13 the Commission should look at -- would be to more effectively address the issues of
14 retraining to best suit the needs of private industry and the government. Obviously,
15 although a very formidable exercise, those of us that were terminated, each of our cases is
16 different. There's not a single answer to all of these questions. They are case by case
17 problems that will need to be addressed.
18 You need to help us relocate. There are jobs out there. There are very
19 good jobs out there that we are trained for. How do we get there? How do we leave our
20 lives behind and move on? How do the local communities get help so that they can
21 continue, so that they can work with the federal government in addressing these issues?
22 It's not all the federal government that has to answer these kinds of questions.
23 Recognize -- and this is the point I want to end with -- recognize that the
24 unemployment compensation and retraining are not a panacea for all the problems that are
25 affecting workers. There are a lot of issues. Those issues need to be -- they exist and
26 they need to be addressed.
27 I'd like to thank you for the opportunity to talk to you today, and I hope
28 that my views will speak for some of the other defense workers and the problems that
29 we've had to go through.
30 CHAIRMAN BERTEAU: Thank you, Mr. Klein, and I assume that you
31 had to take this on your own time to appear here today.
32 MR. KLEIN: Yes.
33 CHAIRMAN BERTEAU: I do appreciate -- I think we all appreciate -- the
34 sacrifice you have to make to do that. You've raised a perspective that, I think it's fair to
35 say, we have not heard from. I have been through what you have been through and it is
36 not fun to be on unemployment. It doesn't do much for your self-esteem.
37 MR. KLEIN: That's true.
38 CHAIRMAN BERTEAU: And it certainly doesn't make it any easier to get
39 up and go. What I think I hear you saying is that we really should discriminate or
40 distinguish, if you will, between people who are laid off as a result of defense draw-
41 downs and other folks who are affected. Am I picking up right? I don't mean to be
42 putting words in your mouth.
43 MR. KLEIN: No -- I think that's true. I think the other issue, though, is,
44 there have been those that have been laid off that have needs. They have needs of putting

1 food on the table. Extended unemployment benefits are a help, but they are not an
2 answer. But there are others that have jobs -- that have jobs 500, 600, 700 miles from
3 home. I had offers in California. I had offers in South Carolina. I wanted to see my
4 family, though. I wanted to watch my children grow up.
5 There are those of us that are really sacrificing a lot to keep bread on the
6 table, and keep paying our taxes, whose needs are not fully being addressed. And that's
7 another area to look at.
8 CHAIRMAN BERTEAU: All right. Well, you've certainly highlighted
9 some of that, and we thank you very much.
10 MR. KLEIN: Thank you.
11 MR. HANLEY: Thank you, Mr. Klein. We're a little bit behind, so do
12 you want to make this a five-minute break, Mr. Chairman?
13 CHAIRMAN BERTEAU: I think in five minutes, I can't even get there
14 and back.
15 MR. HANLEY: Let's make it a 10 minute break.
16 CHAIRMAN BERTEAU: Yes.
17 (A recess was taken.)
18 MR. HANLEY: All right. Yes, we're all ready to go here.
19 Mr. Chairman, the next witness is Janet Pierce, who is representing the
20 United Way of Southeastern Connecticut.
21 Ms. Pierce.
22 CHAIRMAN BERTEAU: Ms. Pierce, welcome. Ms. Pierce, we welcome
23 you, and we look forward to hearing from you.
24 MS. PIERCE: Good afternoon, ladies and gentlemen.
25 My name is Janet Dinkel Pierce, and I am chief professional officer of the
26 United Way of Southeastern Connecticut. By way of introduction, our organization raises
27 over $3,600,000 annually from residents and employees of New London County. We, in
28 turn, use that money to provide funding to 35 agencies throughout the county, including
29 New London, Groton, and Norwich.
30 As one of our key strategic issues, we continually address the questions of
31 growing and changing needs as seen by our funded agencies. They are on the firing line.
32 They see the changes as they occur. It is those changing and growing needs that I would
33 like to address today.
34 In virtually every category of service, our agencies see a two-pronged
35 problem: increasing need and decreased funding. A significant amount of this increased
36 need is coming from former employees of defense-related industries who cannot find
37 employment in the county or who are now underemployed. By "underemployed," I mean
38 that they have a new job but at a wage so much lower that it threatens their ability to pay
39 the mortgage and other basic bills.
40 Let me give you some examples: Child care programs find they have
41 openings because now only one parent is working, so they don't need child care, but more
42 of the children in the programs now need a subsidy or a significantly larger subsidy.
43 Outpatient psychiatric care is growing by 60 percent at one of our agencies, Catholic
44 Charities, primarily because of increased patterns of family dysfunction.

There is a dramatic rise in the need for medical and health services provided by United Community Services, school-based health clinics, and visiting nurse programs. In every instance, this is because of reduced family income resulting in the need for free or heavily subsidized basic medical and dental care for children and the elderly.

All programs providing training anticipate sharp demand increase. Every agency program dealing with substance abuse reports a dramatic increase in demand. Unfortunately, substance abuse, both drugs and alcohol, is sometimes a response to the stress of unemployment. I should add that often the abuse is directed against oneself, which is substances; sometimes it's directed against others, either children or spouses.

Those who are unemployed are often looking for volunteer opportunities in order to stay involved, but programs such as Big Brother/Big Sister are finding it harder than ever to recruit volunteers because there are some expenses involved in being a volunteer, such as maintaining a certain level of auto insurance. Some of the service needs are basic, transportation to get to a training program or a hot lunch while in a training program.

Here is some startling data for a community the size of New London County: The United Way operates the United Way Labor Division Food Center to provide food at no cost to shelters, soup kitchens, food pantries, and day care centers. All of these programs use this food to supplement other sources and budgets they have, but the Food Center contributes over $100,000 annually of food purchased at 12 cents per pound, or wholesale, as well as 25 tons of food contributed last year alone.

Each month, these feeding sites provide us with statistics showing the numbers of meals provided. From January through July in 1991, 201,859 meals had been served, an average of 29,300 per month. In the same period in 1992, 237,368 meals had been served, an average of 33,910 monthly. This represents a 17 percent increase in that most basic need for survival, food.

Let me give you one more example of a new program in our region for people in need. Last year, a number of funders, including United Way, four area foundations, Electric Boat Community Services Association, and FEMA, contributed funds to provide up to a $100 subsidy to individuals who had exhausted every other option for fuel assistance.

More than 10 agencies, including TVCCA, Catholic Charities, the Salvation Army, and others, worked together to make certain that no one froze to death during the winter. Yes, we had a mild winter, fuel prices were down, and we made it through okay. That means we only had to help 263 households who otherwise would not have had heat.

This is a proud community, a hard-working community. Our unemployment rate in this area has tended to be very low because the residents are hard-working. When the defense industry experiences the dramatic cutbacks we have seen and may continue to see, people are thrust into an unknown and uncharted territory.

The residents of this community are not looking for handouts, food, fuel, or otherwise. Instead, they are looking for the training it takes to get the jobs they need to provide for their families, maintain their homes, and retire to a healthy old age. They also need counseling and training to become entrepreneurs, how to use and develop their skills

in order to bring sufficient income for themselves and possibly other employees, as well.

These requests aren't dramatic. We are attempting to provide for the period of transition as we shift from an economy based on the defense industry to one based on tourism or other new and growing industries.

Thank you.

CHAIRMAN BERTEAU: Ms. Pierce, this is the first time that a United Way representative has testified before us. And I think what you've done is pointed out a couple of areas of impact that really are probably not unique to this area, certainly, in terms of the kinds of information you have laid out, but it's the first time that I think it has been raised to us in a forum like this around the country.

Let me ask you -- obviously, the numbers show the increase -- do you have some way of connecting it, if you will, to the kinds of people -- I mean, is this really -- you seem to make a connection in your testimony between the increase in the kinds of assistance being required, which is clearly there, and the retraining needed to take care of the people being laid off. Do you see that connection directly in terms of -- is the increased need there or --

MS. PIERCE: I think the -- yes, the direct connection is the largest employers -- the largest areas of unemployment have been the defense industry in this region. Traditionally, the unemployment rate has been about 2 or 3 percent. The unemployment rate now has been in the 6 to 8 percent region, which is not high, perhaps, compared to other parts of the country, but is high for this region. And all of the larger unemployment areas have been defense-related.

What we are also seeing -- and I have to make sure I don't get anecdote connected with facts --

CHAIRMAN BERTEAU: Right. Right.

MS. PIERCE: But, anecdotally, what we are seeing is, the people who have been unemployed the longest are the ones who are dealing with the most problems. They are the ones who have -- they are the ones who are now at the soup kitchens. They are the ones who have been laid off from UNC, perhaps a year ago from Electric Boat. They have been unemployed for well over a year. They are off unemployment, and they don't have anyplace to turn, and they don't know how to access service.

CHAIRMAN BERTEAU: That was my next question. That's exactly where I'm leading to. There are a lot of services that at least appear to be available, the programs exist, they are being funded, et cetera, is it your experience and your agency's experience that it's hard to connect the two, and do you see anything that can be done to make that connection easier or better?

MS. PIERCE: We're trying to -- I think the first problem is how do we do the connection, as you say. Again, our United Way is trying to work with various support groups and keep working out there with people, reaching out to people, whether it's through their union -- in some places, people who have been union members still stay connected to their union, and that's a source of information for them.

We're trying to make sure that people can stay connected and find the help. What we find, for example, is, the person who has had a problem knows how to get help for fuel assistance. They know, when the fuel tank gets to a certain level, they come for

help. The person who has never asked for help before, who has never needed to, they wait till the fuel tank is empty, which means it costs $50 to start the oil burner again.

Now, this doesn't sound like much, except you start to -- it's harder to deal with these people, and it's harder to get them connected into the system. And that's where we're spending a lot of our energy, too.

It may not be your direct purview, but FEMA cuts have also been a serious problem. FEMA has been one of those ways of boosting people up in the community.

CHAIRMAN BERTEAU: Well, our charter actually tasks us to look at all federal programs, not just those that are connected to defense or funded by defense. So we do have an interest in each of these.

MS. PIERCE: We're trying to keep people in their homes. What we don't want them to do is lose their homes, because once they've lost their home, there's nothing -- I mean, then they have to start from scratch again.

CHAIRMAN BERTEAU: Right.

MS. PIERCE: So whatever we can do to keep people, if it means giving them food and fuel so that they can pay for their mortgage, that's what we're trying to do.

CHAIRMAN BERTEAU: Any other questions or comments?

(No response.)

CHAIRMAN BERTEAU: Thank you very much, Ms. Pierce.

MS. PIERCE: Thank you.

MR. HANLEY: Thank you, Ms. Pierce.

Our next witness is Mr. Harold Payson, who is representing the Maine Executive Department State Planning. And it's nice to have a representative from Maine here to preserve the regional nature of the hearing.

CHAIRMAN BERTEAU: Mr. Payson, we welcome you, sir.

MR. PAYSON: I provided lots of material, written material, and the only thing that I'm going to summarize or touch bases is the testimony, the oral testimony. And that also -- I'm trying to be very brief, because I recognize, if I can get you to remember a couple things, I'm probably coming out ahead.

CHAIRMAN BERTEAU: We're very grateful for that.

MR. PAYSON: I'm glad to have this opportunity to be here, and I bring greetings, if that's possible, from the people of Maine. I work at the Planning Office, but I'm testifying on behalf of Maine's Task Force on Defense Realignment and the Maine Economy.

I really just want to make two points, to touch two subjects, and one is to say a few words about this task force, what it has done and where it is going and make you aware that it exists, because it probably is a forum that you people should touch base with and may want some help from. Secondly, and this is the real reason for my coming here, I want to focus on some federal policies and regulations which greatly reduce the effectiveness of federal programs for worker adjustment assistance. This is the big thing. And if I can sort of step out of my prepared remarks, the interesting thing on this point is, I'm not coming asking for more money; I'm coming saying, if you could only get rid of some of the really crucial barriers, the money you're providing would be a thousand times more effectively spent and workers much better off.

That's why I came here, 700-mile round trip, to tell you there are some barriers there. If we could get rid of them, we would be ahead.

CHAIRMAN BERTEAU: I don't know, Mr. Payson, if you were here for my opening remarks, but in that I invited ways in which perhaps the federal government could stop doing things that make things more difficult, as well as start doing things. So we welcome those examples.

MR. PAYSON: Let me just say a little bit about the task force, and then I'll talk about the barriers that I'm most concerned about. The task force began -- it was created through executive order by Governor McKernan in 1990. As of this year, July 1, it is now a statutory task force, so it doesn't have any definite end date; it's an ongoing task force. I'm sure, as long as the problems that we're facing continue, it will be very active.

We have basically divided our efforts between workers, communities, and businesses. I gave you copies of the interim report. I gave you copies of a draft action plan. From the interim report -- and you certainly have to recognize who I'm representing here -- but it's pretty clear to us that the various national studies by DoD and OEA have consistently underestimated the severity of the impact defense cuts are having upon Maine. You can turn to the reports, and there's lots of other data, but we feel pretty strongly about that.

The draft action plan approaches community needs by stressing the importance of multijurisdictional or multicommunity and proactive planning efforts. We feel we have to get communities looking at the problems early, and the crucial need in that case is funding.

The action plan has addressed so far business needs by trying to bring businesses together, networking businesses in an industry and trying to get them to address common problems and look at strategic planning as a crucial need here.

In terms of workers, we haven't quite unveiled a very innovative and exciting concept that we're putting together, but we think we have something that has some national implications, in terms of a pilot project we're about to propose for worker adjustment assistance training. So I can't say anything more about that right now, but we're excited about it, and we'll be going public on that very soon.

The task force has a number of suggestions for improving federal defense conversion assistance programs. I have an appendix for you. Let me just mention a couple of the things. One of the notions is no federal match. The problems from defense cutbacks are decisions of the federal government and, from our perspective, match seems very inappropriate. If it's a problem created by the government for decisions that may be justified in the larger scheme of things, then the resources to correct those problems also ought to be provided by the government.

Let me just speed along here. I do want to mention the excellent relationship that we have had in Maine with EDA over the years. Maine has had many economic development problems, and EDA has always been very supportive. In particular, EDA, through a planning grant, has actually supported our defense task force, funded our defense task force for the last year and even funded three regional studies, planning studies, that are ongoing in the state.

1 My reason for saying good things about EDA, in part, is that we're
2 concerned that, if EDA's efforts are more directly focused on defense conversion at the
3 expense of some of her other traditional programs, Maine has depended on those other
4 traditional programs, and, if you reduce them, we are not, clearly, ahead.
5 Let me jump then to the particular federal barriers that I'm concerned about
6 for state and local efforts to get defense workers back to work. Basically, there were
7 always kinds of problems, but we tried to focus on just two, the real killers to the state
8 trying to serve workers effectively. As you know, Maine has been buffeted by recession
9 and now defense cuts. As a result, the Maine Department of Labor has been very active
10 accessing federal programs and fundings for worker adjustment assistance.
11 Since 1990, the Maine Department of Labor has applied for and received
12 nearly $5 million worth of federal discretionary funding, coming from a multiplicity of
13 grants, using the current U.S. Dollar grant application process. In the course of applying
14 for federal funding, it has become very clear that a number of federal policies and
15 regulations, however well-intentioned, have a very negative impact upon the services that
16 workers actually receive.
17 So what I would like to do is just pinpoint two areas that seem to cause the
18 biggest problems and where a change of federal policy or regulation promises the biggest
19 gain for workers. Undoubtedly, there are some risks in thinking about relaxing federal
20 strings. And, occasionally, if you do so, I'm sure there may be mistakes at a local level
21 that result.
22 But if you look at the cost and risk to workers of not making some of these
23 changes, the cost is much, much greater. It's a sort of order of magnitude thing. So you
24 do have to take some risks. You do have to make some changes. Occasionally, you lose
25 some little things, but what we're trying to do is win in the big scheme of things.
26 The first barrier is lack of easy access to a flexible funding mechanism, and
27 this is spelled out in some detail in Appendix 2. In fact, the problem is so bad that rapid
28 response of any form is undermined by U.S. Dollar's application requirements. It almost
29 is a contradiction in terms. I guess Maine's recommendation would be to extend the DCA
30 appropriation and to provide states with a less restrictive application process to try and get
31 at that.
32 The second issue are restrictions that inhibit early intervention. Numerous
33 policies and regulations in federal worker adjustment assistance programs make it difficult
34 for states to be proactive delivering services. And this is a good example here: U.S.
35 Dollar policy that news that a particular base will close does not indicate when a layoff
36 will occur or who will be laid off has prevented Maine from using any existing EDWAA
37 readjustment and retraining resources at Loring Air Force Base, even though base closure
38 was announced in 1990. I mean, that's really sad.
39 CHAIRMAN BERTEAU: And that's because of the scheduled closure
40 date, associated with --
41 MR. PAYSON: That's because workers have to have some kind of a slip
42 in hand.
43 CHAIRMAN BERTEAU: Right. Right.
44 MR. PAYSON: To sign up.

A PARTICIPANT: You have to be laid off to get it.

CHAIRMAN BERTEAU: Right.

MR. PAYSON: So what I'm saying is, this prevents any kind of a proactive response to get the people before they have lost the job, to take care of problems before they develop at a much less costly approach.

Maine's recommendation is to make workers at military facilities eligible for receipt of JTPA services once a closure or realignment is announced.

So I won't go into more detail. My sense is and the importance of coming is that there are some roadblocks which are created by the federal government, and if you could address those without even spending more money, we could do a much better job.

So thank you. Let me mention the person's name in Maine who is most knowledgeable about this issue of barriers in the existing federal worker adjustment programs. His name is Mike Bourret, B-o-u-r-r-e-t, and he heads up our REATI team, which is our Rapid Employment and Training Initiative team, and I have a phone number here for you.

CHAIRMAN BERTEAU: All right.

MR. PAYSON: So thank you very much.

CHAIRMAN BERTEAU: Thank you, Mr. Payson. We really do appreciate your coming down here. There is certainly some work being done in the State of Maine that we do intend to take advantage of. In fact, we've been in contact with government officials. There was a hearing, or will be a hearing perhaps this weekend, or perhaps some other time, depending on the senator's schedule, I think.

MR. PAYSON: Yes, there is one on Saturday.

CHAIRMAN BERTEAU: And we will have a representative there and look forward to learning more from you on that. So thank you very much.

MR. PAYSON: Thank you, sir.

MR. HANLEY: The next time slot is -- we're going to have two witnesses. Let's see, we have Mr. Gene Gitelson and Mr. Stephen White from the Veterans Leadership Program.

Gentlemen.

Mr. Gitelson is the president, and Mr. White is the director of the program.

CHAIRMAN BERTEAU: Mr. Gitelson and Mr. White, welcome.

MR. GITELSON: Thank you, sir.

MR. WHITE: Thank you.

CHAIRMAN BERTEAU: Good materials here.

MR. GITELSON: Good afternoon. I'm Gene Gitelson, and I'm president and founder of the Veterans Leadership Program which operates out of Wall Street in New York City and is a regional economic development agency, publicly and privately funded, 501(c)(3) nonprofit.

We would like to do a few things in the short time we have, just give you a brief overview of our program, talk to you about the two strategies that we have developed to deal with the human resource issues and skills deficits and lack of jobs and opportunity in our country. I will talk about the jobs.

Steve White is the director of the Veterans Business Assistance Center that

is part of the Veterans Leadership Program. He will talk to you about the entrepreneurship program and the retraining of veterans and building and creating jobs. And then we will talk a little bit about the national pilot and model.

The materials are yours to review and hold on to. They were developed by some of our public supporters in private companies. No public or private money was used. In fact, this was developed by MTV. It does not have a video or a CD, but it is by the people that tend to produce that. So they try to make it interesting. And they have been very good supporters.

CHAIRMAN BERTEAU: Okay.

MR. GITELSON: I come out of the corporate community, as well as being a Vietnam combat veteran and a platoon leader of the First Infantry Division, and a former banker, second vice president, Chase Manhattan Bank. Ten years ago, a few of us who were in Wall Street, who were hidden vets, who hadn't talked about our military experience, sat and looked at each other and said maybe it's something we should deal with, and maybe there need to be some business solutions for what was seen as a social and economic integration problem with Vietnam combat veterans.

With that romanticism and naivete, we started a program called the Leadership Program with the help of the Reagan Administration, some seed money, $50,000 I think it was, for three states, for job programs. But it was a start. We believe that the solution to veterans unemployment, and in fact unemployment that is resulting from the downturn in the economy and downsizing, can be addressed by looking at the hidden skills and abilities and the recognition that, yes, there are less jobs out there. But even when there were a lot of jobs, 85 percent of them were hidden. They're not in the ads; they're not in the agencies. As the individuals who come to programs and seek assistance are not typical college graduates just fresh out of college, they are not the easiest people for employment agencies to turn over. It requires some insight and assessment, and it requires some special efforts.

We're here today to talk to you, not about problems, but about a solution, one that has been hard fought over 10 years. We have developed what is now considered a national model, and our appreciation for the support of the U.S. Department of Labor and Secretary Higgins for supporting this national model, which has been joined by the U.S. Department of Labor and New York State Department of Labor and New York City Departments of Employment.

IBM has the only veterans computer center in the country. Lotus has the only data center to find out where the growth companies are, and we are using econometric data and neural networking and an artificial intelligence to look at where the growth companies are in our portion of the Northeast, so that vets can look at the right jobs that are hidden.

It's going to take some creativity, but I believe we have the most advanced job assessment and job placement system in the country, and also among the lowest costing, because for every dollar of funding that we get, two dollars is contributed by the private sector in the form of donations of space, equipment, and volunteers, and it proves that this country can work together.

We have placed over 1,100 previously unemployed veterans, 85 percent

minorities, one-third homeless, near homeless. Currently, we have 1,626 veterans on a waiting list, and that's just the last 90 days -- just the last 90 days -- we have another 1,500 before that period. Many veterans have barriers. Some haven't worked in five years. Some have worked for 15 straight years and have been hit by the downsizing, by the recession.

The issue is that people have skills and abilities. How do we take those skills and abilities and convert them to the needs of the '90s? The system that we have created, based on corporate outplacement, computers, all kinds of challenging information in a 30-day prototype of basic training, creates the opportunities that individuals go out and find their own jobs. And 80 percent of the individuals we work with have to change careers, and they do.

As I mentioned, it's a 30-day program. It's 8 to 12 hours a day, and all the veterans get is carfare; that is, if they are on time. If they are not on time, they lose that. So you have to really want it. And our mission is to assist veterans in economic self-sufficiency through leadership, self-responsibility, and mutual support.

We cover everything from assessment to computer literacy. Vets have to learn computers, not because we're putting people into computers. Only 5 percent go into computers. They have to learn it because that's the only way they can do their resumes. They have to learn Lotus 1-2-3 because they have do to a family spreadsheet to figure out how they're going to keep their family going and what job makes sense to accept and which one does not make sense to accept.

We have telephone banks, 10 phone carrols provided by several foundations so that veterans can make their own calls. It is the one place that homeless veterans are truly not homeless, because they have phones, they have a fax machine, and a message service.

So what we've done is taken the skills that we believe are there in the military -- and it doesn't matter if it's one year -- and one-third of the people that see us now are Persian Gulf veterans, one-third are Vietnam combat veterans, and one-third are from every other era, including World War II. The downturn has hurt everybody.

Veterans stay on the jobs because the match is made that's correct. We do not accept that the last job that somebody had may have been the right job. We go back and find out what the real skills and abilities are. Sometimes they match with past experience; many times they do not. But because the match is made correctly, 75 percent of the veterans stay through the first year of employment. That's pretty good, given some of the barriers that people have.

I would like to now turn it over to Steve White to talk about the other aspect. There are really two choices in people's lives when it comes to work. You can either work for someone else, or you can work for yourself. And this is what Steve will address.

MR. HANLEY: I'm afraid Mr. White only has about three minutes.

MR. GITELSON: Great. (Inaudible).

MR. WHITE: He generally does this to me.

I, too, was a Vietnam combat vet with the First Cav. I think I relate fairly well to the population we're dealing with. The one point that we do make that I think is

1 different on the entrepreneurial side is that we feel that, if a person is truly motivated, if
2 they have the correct support systems, that they in fact can become successful in operating
3 a business.
4 You can read books on entrepreneurism, and they will tell you, if you don't
5 sit in the right seat when you go into a room, the odds are against you for making it. And
6 I just don't buy that. I was a banker for five years, working mainly with smaller
7 companies. I was with the SBA for three years as a management assistance officer. I've
8 started a number of companies, mainly working with publishing and providing small
9 business materials, one of which you're looking at right now that we just finished up.
10 We have an interesting program we've developed. We're utilizing a lot of
11 our contacts with the banking community, which I work with on a daily basis, and
12 continuing to stress our public/private programs. The SBA has recently provided us
13 funding through the Veterans Affairs Division to become a national replicable model for
14 what we're trying to do with our entrepreneurial program.
15 We are also receiving funding through the New York State Department of
16 Economic Development for a workshop program we're developing for our start-up
17 entrepreneurs.
18 In our plans we have a small business incubator program to house
19 companies within our facilities, to really give them a jump start on a start-up situation.
20 But we're working with all vets from a start-up, educational point of view, and to existing
21 veteran-owned businesses now, where they can become mentors for others and/or if they
22 need assistance throughout this economy.
23 Small business is tough any way you look at it. So we're trying to be able
24 to provide a total fallback system for both sides of it. The unique side, I think, that we
25 have is that no matter what the veteran does when they come through the door, we have
26 something to assist them with, either from the job side or from the entrepreneurial side.
27 CHAIRMAN BERTEAU: Are you at a good break point, because there are
28 a couple of questions that I would like to ask before the time is gone?
29 MR. WHITE: Sure.
30 CHAIRMAN BERTEAU: You folks apparently draw support from a wide
31 variety of sources, state, private, who knows where. And I guess, if you're getting Small
32 Business Administration support at the back end, you've got some federal program thing
33 as well.
34 What do you think makes sense for us to look at in terms of focusing
35 federal programs better, or do you -- and that's sort of an open-ended question, if you will.
36 You don't have to come up with the answer right now, because I also invite you, on that
37 question, in terms of the things we would recommend -- you're clearly treating a
38 community which is very relevant here and one that will presumably grow as a result of
39 the drawdown.
40 What kinds of things would you see the federal programs that you already
41 draw from or participate in do better in order to make your job more effective?
42 MR. GITELSON: Well, I think the first thing is, let's not reinvent the
43 wheel.
44 CHAIRMAN BERTEAU: Okay.

MR. GITELSON: Several levels of government and corporations have come together to build a program over a 10-year period that seems to work. There are all kinds of data and verification. So the question is -- and business society feels that it is replicable and exportable, since we're not training white collar or blue collar. It's not based on those areas; it's based that people have skills, and we're going to be the bridge, we are the bridge between the individual and the business opportunity.

The question is, so how do we take what you all have invested in it, the taxpayers have invested in it, and build this as part of a conversion process? It's not the whole process; it's one piece of it. But if we're looking at how individuals from the service can now be utilized in the poorer areas of our country because they have leadership skills, while we have to convert, we have to take people who seemingly have exotic skills, whether it's the gentleman talking about the defense industry before, or individuals who work in many of those areas in the Defense Department with all the acronyms.

When you get past the acronyms, there are real human skills, and everybody has those skills, and they're not about the jargon that we become part of. But we have to separate the war from the warrior, the individual from the uniform, and honor that experience, and translate that experience. And it can be done.

I think we have lost the confidence, in many ways, we used to have that we could solve problems. And I think this has shown that it can work, and it can work at a cost that we can afford.

CHAIRMAN BERTEAU: This is most exciting, and I certainly look forward to going through the tape and the other materials here, too.

Does anybody have any additional questions you want to ask these folks?

(No response.)

CHAIRMAN BERTEAU: Your enthusiasm comes through loud and clear, and clearly your results warrant that. Obviously, you're not reaching everybody you would like to reach. You have a long waiting list, and the kinds of things that you folks are doing I think are remarkable. I look forward to looking more closely at it and seeing if there's something we can do to help you.

Thank you.

MR. GITELSON: Well, we're available, so let us know if we can help in any way.

CHAIRMAN BERTEAU: All right. Appreciate it.

MR. HANLEY: Thank you, gentlemen.

The next witness is Mr. John Caron, representing Caron International, which is a textile manufacturing concern.

CHAIRMAN BERTEAU: Mr. Caron, you've been waiting patiently out there for some time. I appreciate it. We're a little bit behind schedule, but have at it.

MR. CARON: Actually, I'm representing the -- I'm chairman of the Connecticut chapter of Business Executives for National Security, BENS, which is a group of about 2,000.

CHAIRMAN BERTEAU: I'm familiar with BENS offices there in Washington.

(Simultaneous speakers.)

CHAIRMAN BERTEAU: And we have in fact met with them down there at the Washington chapter.

MR. CARON: But I'm also a textile manufacturer.

CHAIRMAN BERTEAU: All right.

MR. CARON: I gave one of the staff members at the desk a dozen copies of my testimony, so what I want to do is just briefly summarize the six specific recommendations that we would like to make.

CHAIRMAN BERTEAU: Okay.

MR. CARON: My biggest concern with the defense conversion process is that short-range, politically-motivated thinking is dominating the decision-making process. Jobs are the issue. And everyone seems to agree that we must scale down defense expenditures from Cold War levels, but this is an election year, so few political leaders are willing to cut jobs in their state or district.

In Connecticut here, we have a second $2-billion Seawolf submarine. Congress will release funds for the V-22 Osprey, despite Defense Secretary Cheney's opposition. The B-2 bomber was considered an ideal weapon because it's made in 48 states. And the whole thing -- even a politically-motivated decision preventing reduction of reserve forces.

You have seen the delays in the base closings. The Philadelphia Navy Yard is an example of it just this week. The Homestead Air Force Base, the efforts to rebuild it, the M-1 tank, the F-15, the Bradley armored vehicle, they're all examples of trying to extend this whole issue of jobs. My point is that we maintain jobs, but this is a very expensive way to do it.

Now, we were fairly successful in taking politics out of the base closing process. And BENS, by the way, had a considerable input into that. We had a Base Closure Commission. They made recommendations, and then Congress had to vote a yes or no on the entire package. And I would like to see something similar, a yes or no process, in this defense budget.

We can get much of the pork barrel out of the defense budget by having the President and the Congress set the total amount of the defense budget, and then tell the Pentagon. They're the experts; they decide how to best spend the reduced budget to protect our national security. And the pork barrel would be the first thing to go from that process.

Second recommendation here: The Commission should consider creating a new type of GI Bill -- I know a number of people have mentioned this -- to assist retiring military personnel and displaced defense workers. One of the factors that facilitated conversion after World War II was the GI Bill. We effectively converted millions of men and women to productive civilian lives. The upgrading of skills proved to be probably one of the best investments we've ever made in this country.

The people in today's defense industry are the equivalent of the returning GI of World War II. Just as the GI gave years of his life to his country, we now have returning service men and women and defense industry workers who must be recycled into a civilian economy, and we should establish a new type of GI Bill for these

individuals.

Now, some of these people are young enough to take advantage of the educational opportunities of a new GI Bill. Many are older, but they have skills that our country needs, and we should make these skills available to emerging companies on a subsidized basis, to help them build a solid base for the future. The idea is that these former defense workers could be given vouchers redeemable by the hiring company where the government could pay part of the salary for a fixed period. It would be a big incentive to hire a displaced defense worker and a help to a struggling company.

The third recommendation: The Commission should support programs that provide low-cost capital and other incentives to small business that facilitate the transition. This has been mentioned by a number of people. There are two key elements in a company that is trying to change directions. The first involves strategy. A company can decide to produce different products for different markets by relying on existing skills, or they can utilize their contacts with or their knowledge of their existing markets to develop new products for these markets.

Now, these are entrepreneurial skills, and I don't think that government can help with these. These have to be left up to the entrepreneur. However, the second element that usually is a big barrier to companies growing is lack of capital, a major problem for smaller businesses. Banks, especially those here in New England, are increasingly risk-averse.

Smaller businesses especially need low-cost loans. They need grants for the cost of start-up training. They need R&D tax credits, accelerated depreciation. This idea of subsidized experienced workers from the defense industry, all of this can help new businesses. And entrepreneurs, I think, will readily seize this opportunity.

Three other recommendations here are more of a miscellaneous nature. Resorting to arms exports I think is a misguided short-term solution to these problems. The resulting regional instabilities that we can cause may be more costly in the long run than the short-term benefits that accompany arms sales. And I think it's very awkward for the United States to comment -- to ask other nations to not export arms to sensitive areas in the world when we are the largest exporter in the world.

A fifth recommendation is referring to procurements. Some of you might be familiar with the BENS Commission on Fundamental Defense Management Reform. I can leave this copy with you, if you would like it. But it was chaired by former Deputy Secretary of Defense Roswell Gilpatric.

We had two other Secretaries of Defense on there. We had McNamara and Eliot Richardson. We had GEN David Jones, who is a former chairman of the Joint Chiefs of Staff, GEN Andrew Goodpastor, who is former Supreme Allied Commander of NATO, a lot of really experienced people.

One of the Commission's recommendations that related to the shift toward a civilian economy involved greater use of commercial products in military items. For example, the computer chips used in commercial products are just as effective as in military goods. But the Pentagon still buys many goods based upon complex and often unnecessary military specifications.

Of 50,000 DoD acceptance standards, 34,000 are military specifications,

1 but, of those, 20,000 are for products or processes that could be replaced by commercial
2 ones. We would like to see greater preference given to commercially available products.
3 It would not only save money but also help the transition to a civilian economy.
4 And the sixth recommendation that we're making, we're saying the
5 Commission should consider reforming environmental regulations and other rules that
6 impede the transition of military bases to civilian use. The process is often being slowed
7 down by environmental restrictions which prevent businesses from using these sites. Few
8 companies are going to take the risk of taking on an environmental cleanup problem that's
9 not of their own doing.
10 If the government caused the problem, it should indemnify the future users
11 of that property from the cost of environmental cleanup so this transition of military bases
12 to civilian use could be expedited.
13 Now, I'm a businessman. I'm a citizen of this country. I'm concerned
14 about the waste I see. And we're facing a severe crisis in this country. We have a debt
15 that's a threat to our future well-being. Defense expenditures and conversion, I realize, are
16 only a part of the problem, but they are the part of the problem that this Commission is
17 trying to address.
18 I think it's inevitable that defense spending is going to be cut as the nature
19 of the threats to our national security change, but instead of spending the money on
20 politically-motivated defense job maintenance, we should redirect those expenditures to
21 rebuilding our civilian economy.
22 I realize that political considerations are often a practical reality that must
23 be faced, but I think this Commission has to look at the big picture in recommending
24 what is right for our country rather than what is politically expedient.
25 Those are my recommendations.
26 MR. HANLEY: Thank you, Mr. Caron.
27 CHAIRMAN BERTEAU: Mr. Caron, thank you. I would point out that,
28 in fact, none of us are politicians.
29 MR. CARON: Good.
30 CHAIRMAN BERTEAU: So it's easier for us to perhaps listen to that than
31 some. But you pointed out a number of areas in your six recommendations that we are
32 taking a hard look at. I expect that we will address, for example, the question of
33 commercial items, and we will probably talk a bit about access to capital, as well.
34 Let me clarify a point, and perhaps it's clarified in your written statement
35 there, so, if it is, you can just tell me, and I'll read it as soon as we're done here. With
36 respect to things like R&D tax credits, and subsidized access to capital, and accelerated
37 depreciation, et cetera, would you restrict the eligibility for those things to only those
38 entrepreneurs who are coming out of the defense business, if you will?
39 MR. CARON: No, no. The objective is to create nondefense jobs
40 wherever --
41 CHAIRMAN BERTEAU: Anywhere.
42 MR. CARON: Anywhere.
43 CHAIRMAN BERTEAU: Right. Right.
44 MR. CARON: I would probably restrict it to the size of the company,

because the problems are -- maybe up to 500 employees, maybe up to 1,000, something like that. But the objective is to create nondefense jobs and to give an incentive to whoever is out there. A defense company who would create a nondefense job would be eligible as well as anybody starting up in environmental operations or anything.

CHAIRMAN BERTEAU: With your vouchers for hiring, if you will, that you could turn in, eligibility for those, you mentioned that defense industry workers would be eligible for that. Earlier in some of the testimony today it has been pointed out that it's hard to draw the line there, in terms of what company somebody works for, because there are a lot of jobs that at least are in part dependent upon the defense revenue.

Are you talking essentially prime contractors there and the individuals laid off --

MR. CARON: No, no. The subcontractors are a big part of it, especially in the State of Connecticut, and, interesting, the testimony of Rhode Island that subcontractors are a huge one. So I think we have to err on the side of a little liberal interpretation of that, because the point is the way we dangle that incentive out there of not only lower-cost capital but lower-cost, experienced, talented workers. And I think the entrepreneur is going to jump at that one and create the jobs, and that's what we're trying to do.

CHAIRMAN BERTEAU: All right.

COMMISSIONER DUBE: Thank you, Mr. Chairman.

Mr. Cheney is quite anxious to sign up to your proposal that the Congress sets the number and let the Pentagon carry out the program, but I doubt that either he or I would be very optimistic about that outcome.

MR. CARON: Could you make the recommendation, though? Because, you know, we did it in the base closing. Remember, we had this terrible time.

CHAIRMAN BERTEAU: No, I wrote it down. I think that's a very intriguing idea. I'm not sure everybody in Washington would greet it with the same enthusiasm that Mr. Dube has, but we'll certainly take that one on.

COMMISSIONER DUBE: I'm in on the overall defense budget.

CHAIRMAN BERTEAU: Right, on the overall budget. That's right. Right.

COMMISSIONER DUBE: (Inaudible).

CHAIRMAN BERTEAU: All right.

COMMISSIONER DAHLMAN: Just one.

CHAIRMAN BERTEAU: Okay.

COMMISSIONER DAHLMAN: Would you be prepared to go before the House and Senate Armed Services Committee to make that recommendation in person?

MR. CARON: Absolutely.

CHAIRMAN BERTEAU: Good.

COMMISSIONER DAHLMAN: You're a braver man than I am.

MR. CARON: Absolutely. Because, you know, I talk to individual congressmen, and they all -- and even governors and things like this -- and they say, "John, you know, I agree with what you say, but I can't do anything that's going to affect a job in my state."

1 But if you can take the onus off of them, just like in the Base Commission,
2 they say then they can hold their heads -- "Look, I couldn't do anything about it. It was a
3 yes or no, and the overall thing was better for the country than trying to amend this thing
4 to death."
5 CHAIRMAN BERTEAU: I think we would all agree that the worst
6 possible outcome would be a defense budget that remains at exceptionally high levels and
7 doesn't provide any capability as a result of having done that. That would be the worst of
8 all possible outcomes.
9 MR. CARON: That's what is happening today.
10 CHAIRMAN BERTEAU: All right. Mr. Caron, we thank you very much.
11 MR. CARON: Thank you for the opportunity.
12 MR. HANLEY: Thank you, Mr. Caron.
13 The next witness is --
14 A PARTICIPANT: Do you want this, by the way?
15 CHAIRMAN BERTEAU: Yes.
16 MR. HANLEY: The next witness is Commissioner Joseph McGee, who is
17 the head of the Department of Economic Development for the State of Connecticut.
18 CHAIRMAN BERTEAU: Mr. McGee, your absence was noted earlier
19 today, and now your presence is even more delightfully noted. Thank you very much.
20 MR. McGee: I'm very happy to be here.
21 A PARTICIPANT: (Inaudible).
22 MR. HANLEY: We're about 30 minutes behind, Mr. Chairman. So I'll try
23 and get us back --
24 MR. McGee: I'll be brief, but I would like to make a couple of points
25 which I think are critical.
26 I was listening to John Caron's --
27 CHAIRMAN BERTEAU: Could you slide that microphone close to you
28 there, sir, so that we can all hear?
29 MR. McGee: Sure.
30 I was listening to John Caron's testimony. I thought I could reinforce it.
31 We did a survey of the defense subcontractors, not the prime contractors, but the
32 subcontractors, which has been very difficult information to get, both for the State of
33 Connecticut and the federal government. And it's fascinating.
34 We had 2,200 companies respond. It was a response rate of about 49
35 percent, so that gives you a scale of how interested they were. In it we asked them, what
36 are the most important items you're facing? And it was interesting. Let me give you a
37 breakout of the companies. Generally, these companies, 60 percent of them, 25 percent or
38 less of their business was with defense-related products. Twenty-two percent of them,
39 though, were more than 50 percent defense-dependent, in this subcontractor group.
40 Now, with that profile, it's fascinating. Two key items: one was assistance
41 from the government in terms of marketing and strategic planning; and, two, financing.
42 And it goes back to the point that John was making. I want to just stress this issue of
43 marketing and what we have found. Connecticut is now being identified as one of the
44 most aggressive states in terms of defense diversification, for obvious reasons. We are

also one of the states most severely impacted by cutbacks. I think the New York Times article on Sunday indicated we would take a 2.3 percent hit in our total gross state product, which is very high.

When we started this work with our defense subcontractors -- and this is something I think you need to look at very carefully -- it is very difficult for defense companies, particularly those subs that are 50 percent more dependent, to begin this whole process of commercialization. It is not impossible, but they don't have marketing. They have been on the federal procurement system. They don't have marketing departments. They don't have new product development teams. So this is a great adventure.

What we found at the state level is, we began very quickly to say we will provide a sum of money to outside consultants to work with these firms to identify their strengths and weaknesses. This is a painful process. You know, we've had one company go from 1,500 employees down to 140. They now have a viable company, but at 140 employees, and they're looking at medical product development, as opposed to nuclear product development.

The skill levels are there, but, quite frankly, the culture in these highly dependent companies is going to take an extraordinary amount of hand-holding to introduce a market-strategic driven sense of a corporation. And I think, if we're serious about these companies surviving, we need your assistance in this area.

To give you an example, we are spending this year $22.5 million on defense-related activities, conversion-related activities. Overall, we're spending about, direct investment, about $100 million in nondefense companies. That's number one.

Number two, the issue of capital, we would really suggest a partnership with the federal government in this. Not only is access to capital a problem in New England, and it clearly is here, but the companies clearly, on new product development, need both equity investments, which we are now providing -- the State of Connecticut, through Connecticut Innovations, Inc., we make equity investments in new product development. One of the ones you may have seen was with UTC, commercialization of jet engine technology into a turbine power producer.

These are controversial deals meeting great acceptance in the state because we're job dependent, but this is something very different for the federal government, in terms of commercial companies. We think that's critical. We need your help with that. We will invest $22 million that way this year, but that's small potatoes, quite frankly.

In terms of debt capital, we have set up a program of loan guarantees. We're using $100 million of state bond funds. We created a loan guarantee program that supports literally a billion dollars worth of private investment, but we are going to need federal assistance. And the recommendation we would make to you is, if a state is willing to go that route, if the federal government, particularly these conversion efforts, could partner up with us.

We don't want to make these programs bureaucratic, but we do need your assistance. And we have quite a bit of experience in the area, and we believe it applies very directly to the efforts you're going to make all over the country. But no one state on its own can do this, it's very clear.

The final point I want to make, in terms of defense diversification, we tend

to see it in terms of the labor force, and that has been addressed here. The issue of vouchers for displaced workers, we would strongly urge you to look at a voucher program, and we would be willing to partner on that basis.

The other part of that, though, is the region. We have in this region of the state -- in Southeastern Connecticut, we are very highly defense-dependent. So our strategy is to diversify the base of the region, and that goes to the very issue of cooperating with local municipalities so that they begin to find their strengths and weaknesses and then, out of that, coming up with a plan for development.

This region of our state now has moved very aggressively in that area. A regional council of governments is being proposed. TECHON has been proposed. But, also, this is an enormous financial burden on us. If your programs could, again, partner us and reinforce that, we think that's a real positive development.

In conclusion, we're learning a lot. This is a very tough process. It is tough because it's very new. After the Vietnam War, I had been in Washington at the time, it was amazing to me how quickly that evaporated. We were going to create the turbo train out at UTC, and I remember going to all the test runs in Colorado, and then it just -- kaput.

This clearly is a sustained change. We are putting in place local as well as state programs. I think it's very important that federal programs support local programs, because the issue of economic development ties directly to municipal support, in terms of zoning, in terms of municipal infrastructure improvements. And this is a long-term change; this is not going to go away in 2, or 3, or even 10 years, we believe.

Having been on the federal side, I think sometimes we don't appreciate enough the very real difficulties locally and what a role you can play in that.

So I will stop, and thank you for coming.

CHAIRMAN BERTEAU: Mr. McGee, thank you.

Would you agree with Mr. Caron earlier who said that while the vouchers might be limited to people -- although he wanted to cast it broadly -- the other federal finance areas, you're talking about marketing assistance, capital, either equity or debt investments, would you advocate those being unlimited in terms of eligibility, or should it focus on those defense-dependent areas and defense-dependent companies?

MR. McGee: It catches me both ways. Clearly, the whole manufacturing base of the country has to be reinvigorated. And the defense industry is part of our manufacturing base, and the skills on the defense side tie to our overall manufacturing base. So my interest is, and our interest as a state is increasing our manufacturing capability.

CHAIRMAN BERTEAU: Regardless of where that increase comes from.

MR. McGee: Regardless of where it is. And defense has played a major role in the manufacturing capability of the country.

But I would disagree with him on one issue. We believe very strongly, as he does, as he indicated, the subcontractor base is critical here, critical. But large companies also need to be encouraged to spin off the commercialization of their military technology. Even the UTCs of the world, which are diversified, we're finding that there can be broad collaboration on new product development. So we wouldn't limit it just to

1 the subcontractor base.
2 CHAIRMAN BERTEAU: All right. We did have a copy
3 -- you thoughtfully provided us ahead of time with the survey, and it was most interesting.
4 I think we would be miles ahead if everybody had that kind of information already. So
5 it's a big input and a big help.
6 Thank you very much.
7 MR. McGee: Thank you very much.
8 CHAIRMAN BERTEAU: Any additional questions?
9 COMMISSIONER MAY: May I ask a question, Mr. Chairman?
10 CHAIRMAN BERTEAU: Yes.
11 COMMISSIONER MAY: We had a comment today from at least one
12 member of the Regional Council of Governments that it would be much more effective if
13 federal money went directly to the region and avoided the state. I assume you don't agree
14 with that statement.
15 MR. McGee: No, actually I would. Let me tell you our strategy. We feel
16 very strongly that you want to start decentralizing the delivery of services. In fact, our
17 whole strategy at the state level is to strengthen municipal development corporations. And
18 I'll be very candid, that's a very difficult process. But as you strengthen them and they
19 move towards independence, that's exactly what you want. You want them to be very
20 aggressive with the state.
21 But, clearly, there has to be a linkage between state policy and municipal
22 policies. But if you were to directly fund some municipalities or municipal development
23 corporations, we would have no problem with that as long as they had a plan of
24 development and all the mayors and selectmen were on board, and it was a coherent
25 strategy. That's the critical issue is the coherent strategy.
26 COMMISSIONER MAY: Okay. Thank you.
27 COMMISSIONER DAHLMAN: (Inaudible).
28 CHAIRMAN BERTEAU: Carl.
29 COMMISSIONER DAHLMAN: Can you briefly outline for us what the
30 State of Connecticut is doing to make this a more business-friendly state? We've heard
31 stories about businesses leaving the state because this is a tough state to do business in.
32 Do you agree with that, and are you working on that positively?
33 MR. McGee: Yes, Connecticut was a very tough state to do business in, as
34 most of the Northeast was. It is very clear, in terms of -- the issue of competitiveness, in
35 terms of the Northeast, is front and center. And what does that break down at? In our
36 state, it was high workers' compensation, high health care costs, difficulty getting
37 decisions from the federal government in terms of revenue policies. High cost of housing
38 is not a government issue, but it is a cost of doing business. High taxation.
39 Quite frankly, if you look at what happened in the '80s in this state, we
40 took for granted that we were in a boom period. We have been called the Alfred E.
41 Neuman approach to economic development. We are so rich, why worry? And what
42 happened is, when the boom collapsed, we began to realize we were not paying attention
43 to fundamentals, and now we are.
44 We have set up an investment policy. We are literally investing almost

$250 million a year in direct assistance to companies. We're streamlining the delivery of service, and we're also privatizing it. What we're saying to ourselves is, the financial institutions and the state have got to partner up in the delivery of capital.

I'll tell you, though, this is an enormous challenge for this country, this issue of competitiveness and what it means. Just one note: We have found, essentially, the public as well as the politicians and, in fact, the business community is very ignorant about economic policy decisions. And this is a real education process. Tax dollars support job creation. People don't make that connection. Defense dollars were jobs. We're just beginning to understand the real connection.

CHAIRMAN BERTEAU: I think that's a very important observation. There is a job at the end of every one of those dollars somewhere down the line.

MR. McGee: You betcha. You betcha.

CHAIRMAN BERTEAU: And that connection has to be paid attention to.

MR. McGee: Thank you.

CHAIRMAN BERTEAU: Any other questions?

(No response.)

CHAIRMAN BERTEAU: Mr. McGee, we thank you very much.

MR. McGee: Thank you.

CHAIRMAN BERTEAU: I recognize that we're sort of creating our own problem here, in terms of the schedule. But sometimes we have to -- and I apologize to those of you who are waiting and we're skipping your time, but I think it's important that we take full advantage, given the limited amount of time of each witness, and make sure that we get everything we can out of them.

What I would propose to my fellow commissioners is that we work through the next scheduled break and anybody that needs to take a break can do so as we move along and that will buy us back a little bit of time and catch us back up on the schedule. So, Mr. Hanley, I think we're ready.

MR. HANLEY: The next time slot is shared by two distinguished labor leaders with whom the Commission met last night, Mel Olsson of the Marine Draftsmen's, and Ken de la Cruz of the Metal Trades Council.

CHAIRMAN BERTEAU: You might flip Joe McGee's name tag down there, Mr. Olsson, so we won't confuse you.

I know you had the opportunity to meet with some of the Commission members last night. We appreciate your taking the time both then and now.

MR. OLSSON: Thank you. I'm Mel Olsson, President of the Marine Draftsmen's Association, we're part of the United Auto Workers Local 571.

I've also worked at Electric Boat for 31 years. I started as a pipe fitter apprentice, graduated as a design apprentice and have been a design tech specialist there.

The membership of the MDA/UAW Local 571 is a valuable resource to the region. These highly educated and trained designers, technical and administrative aides personnel provide a natural base for high tech diversification.

Can't hear me?

CHAIRMAN BERTEAU: You better pull the microphone closer.

MR. OLSSON: Okay. Thank you.

Many represent a unique technology base that cannot be replaced, and have worked on nuclear power plants, non-nuclear plants, chemical plants, off-shore drilling platforms and many types of surface ships. They are trained in the latest computer aided design and engineering technology. To train these workers to adapt to a new product line would be minimal. The industry which could be attracted to our area by maintaining these skills are desired by most towns.

We must maintain our skilled work force in design and engineering. Once this group has been disbursed out of the area due to defense cuts, we will not be able to retrieve them. With the proposed defense cuts, massive layoffs in the area are inevitable. These layoffs will affect everyone from the skilled craftsmen at Electric Boat, to the cashier at the grocery store.

The skilled workers remaining in the area will be forced to take lower paying service jobs, with minimal or no benefits, thus lowering the area; will have to sell homes to vacate their rental properties, and thus reduce property values, which have already been hard hit by the sluggish economy.

There will also be families struggling to make mortgage payments while on unemployment, or working for a fraction of their normal wage, resulting in an increase of home foreclosures in the area. The effect will not only be felt by the displaced workers and their families, but the whole community.

The high quality of the schools and health care in the area will decline, and the effect of the defense cuts will be devastating to the local economy, throwing thousands of lives into the uncertainty and shambles. These veterans of the Cold War are deserving of much more respect than that.

One area of concern are retirement benefits. They are a major concern to the long term defense workers. With corporations downsizing and restructuring, retirement money set aside may become vulnerable. Congress is considering a bill aimed at the laid off worker or terminated defense worker age 55 or older with at least 10 years of service. The bill would have the contractor pay these workers with their normal, unreduced retirement benefits, plus a special pension of $500 per month to be paid until the individual reaches the age of 62.

The bill would greatly reduce the economic effects of defense cuts on these long term defense workers. We also need strong laws to prevent corporations from using money set aside for retirement for any purpose except retirement, even in the event of bankruptcy. And another policy that would help reduce the economic effect of defense cuts would be to allow displaced workers access to their stock option plans or IRAs without having to pay any tax penalties.

Another obvious problem is the Defense Department's awarding contracts to foreign competitors. And an example of this is the Army awarding a $10 million rifle deal to the American subsidy of a Belgian gun company. With Colt firearms, one of the original manufacturers of firearms, on the brink of bankruptcy the Army should have considered keeping the monies on American soil. The effects of not doing so will force a cutback at Colt, probably in the form of periodic plant shut-downs starting in October. This announcement was made August 20th, and as of today, 250 people are laid off due to this decision.

Was it worth saving $900 per rifle while our industrial base goes belly-up with the corresponding loss of local and federal taxes?

Diversification to provide other technical work is a worthy goal, but it will not solve the community's problems for 8 to 10 years, depending on the success of any initiatives. Our immediate and only hope to maintain our unique technical base is to hold the current scheduling for new summary and design, and thus lessen the impact of unemployment in this area.

In conclusion, the MDA/UAW wishes to thank the Commission for the opportunity to address its concerns regarding the economic effects of the defense spending cuts on our members at Electric Boat, and their families. Southeastern Connecticut has many natural resources with a wealth of highly skilled and well educated design and engineering personnel. Let's keep this resource working for a strong America.

Thank you.

I would like to introduce Ken de la Cruz, who represents the Metal Trades Council, and I was going to share my time with him -- so he has a statement, also.

CHAIRMAN BERTEAU: All right. You can pass the microphone over to him. Mr. de la Cruz, we welcome you, as well.

MR. DE LA CRUZ: Thank you. My name is Ken de la Cruz, I'm the president of the Metal Trades Council. I'm a graduate welder apprentice and have worked at Electric Boat for 19 years.

The metal trades consists of approximately 8,300 highly skilled submarine builders. Working under the strictest quality standards we build one product, the finest submarine in the world. From the drawing board we create one of the most technically advanced systems known to man.

Electric Boat is the largest employer in southeastern Connecticut. With the recession at hand, dramatic cuts has the potential of transferring this area from a recession to a depression, impacting this area both socially and economically. Not only are the employees affected, but the community, the state and federal government will also be influenced.

Some $559 million go into payroll annually, and this is spent in our community and the communities surrounding Electric Boat, for food, clothing, automobiles, insurance; for homes, and the hospitals, and for recreational activities. Cutbacks would even affect the local United Way, of which Electric Boat employees donate almost $700,000 annually. Organizations and agencies who give aid and assistance would be stretched to the breaking point.

The main issue that does get lost in the stats and graphs is the human element. With unemployment comes fear, the fear of one's ability to provide for oneself and the family, to pay the rent or the mortgage, to put the food on the table, to pay for the insurance and the ability to obtain another good paying job with benefits. These are some of the factors that are involved.

Training is essential, but there must be a job potential after the retraining. Under COBRA laid off employees are able to carry insurance after they are laid off, but the difficulty is that we have to pay over $400 for family coverage per month. And if you're out there collecting unemployment and have other bills, that's probably one of the

first things that our people let go.

As to mortgage and rent, defense workers should be allowed limited relief such as a GI Bill. Unlike the planes and tanks, submarines have been prohibited from foreign sales. Nondefense ship building virtually does not exist due to the fact that other countries subsidize ship building, and we are not able to compete.

Conversion isn't easy, but it isn't impossible. Since Electric Boat is a nuclear facility we possess the ability to build propulsion systems and power generating systems. Some of the possibilities are infrastructure work such as high speed trains, or sales of submarines to foreign countries, or perhaps, under water exploration and research. In addition, we are also capable to perform work on space stations and/or explorations.

With the recession, established businesses are having a difficult time surviving. Trying to diversify and establish businesses will be very difficult. The NAFTA agreement is a particular concern of mine. Due to the fact that companies are driven by profit, American companies will cross the border to seek higher profits, especially during the recessionary times.

Unfortunately, workers of this country are considered a disposable commodity. Large companies will survive, and smaller business will be affected, and most will leave a wake of unemployment in this country.

Many people in the work force are trained in various trades and are graduate apprentices. The experience and expertise if not saved could be the loss of the submarine industrial base. With the cuts in defense spending the money should be utilized in retraining and job development for the dislocated workers, or the government will create another problem. I believe that if we take from Peter to give to Paul we have to come back and deal with Peter.

On behalf of the Metal Trades I would like to thank the Commission for allowing me to speak regarding my concerns.

CHAIRMAN BERTEAU: Mr. Olsson and Mr. de la Cruz, we really appreciate that. We've talked to, you know, some of the companies involved here, including Electric Boat, at some length earlier today, and certainly got the sense from them that they are working hard to get at some of these issues.

Is it your sense that the work force is supportive of efforts to diversify and to expand the business base, if you will, and that the workers are willing to be -- how do I put this -- flexible in terms of assisting the company in pursuing some of those opportunities? Have you folks discussed that, and is that an issue that the workers at the Union has discussed?

MR. OLSSON: I would say generally the workers are supportive of diversification efforts, and most of them I know in the technical and engineering areas look forward to that type of diversification and different work opportunities. I don't know if Kenny's people would be as easy to deal with or not.

MR. DE LA CRUZ: Of course, you know, what we're faced with based on the figures that Electric Boat has provided us is that we're presently about 17,000; that by the year 1997 the total number at Electric Boat, by their predictions, is 7,500. So, of course, we are very, very concerned and looking forward to some conversion.

CHAIRMAN BERTEAU: So, you're looking for opportunities to keep that

number a little bit higher --

MR. DE LA CRUZ: Of course.

CHAIRMAN BERTEAU: -- if it's at all possible. All right.

You mentioned retraining is an area that's important there, for people who are laid off. You've heard some of the comments earlier today about the problems with retraining programs today. You've got to focus on what job it is you're retraining for, not eligible until you've already got a pink slip in hand. Have your members had experience with this, and did their experiences bear out the kinds of comments and concerns that we've had earlier today?

MR. DE LA CRUZ: That is one of the major problems, that before they can get the training they have to have that pink slip. And that's what we are finding, is that if they are retrained, where do they go from there? So, before they're retrained, they're matched up with a potential job. But that is a major problem.

MR. OLSSON: That's true. A lot of the money is not available until you have been notified of your lay-off, where there may be some opportunities there to release the money sooner for areas where you know there are going to be cut backs and there are going to be people that are going to be put out, and maybe afford those opportunities to them.

CHAIRMAN BERTEAU: It would save you time and you'd be in better shape at the end of the road there.

MR. OLSSON: And earlier somebody mentioned the apprentice program. I think that in a lot of areas I've seen that deteriorated with less funding, and I think that's an area that still has a structure that's usable and probably could be rejuvenated to some extent.

CHAIRMAN BERTEAU: Any other questions or comments?

COMMISSIONER MAY: As you said earlier, we had a superb hour meeting with these gentlemen last night, and they gave us additional facts that were very helpful in our deliberations, and we appreciate them coming back again.

CHAIRMAN BERTEAU: Thank you.

MR. OLSON: Again, thank you very much for your time, last night and today.

CHAIRMAN BERTEAU: Thank you, gentlemen.

MR. HANLEY: Thank you, gentlemen. The next witness is Mr. Peter Meade, president and CEO of The New England Council, Incorporated. I note you've got a fairly lengthy statement here, Mr. Meade, perhaps you'd like to summarize it for the Commission.

MR. MEADE: I'm sure I wouldn't like it as much as the Commission would.

(Laughter)

CHAIRMAN BERTEAU: Mr. Meade, we appreciate your patience and welcome your appearance here.

MR. MEADE: Thank you. I will summarize my comments, and have provided copies for you.

I would like to first tell you The New England Council is the oldest

1 regional business organization in this nation, and on behalf of our hundreds of members,
2 businesses, institutions in New England, I'm grateful that you're here and that you would
3 give us this time to testify.
4 One of the things that I think is quite significant is one of attitude. It
5 seems to me that the last witnesses pointed to a problem that's very serious, and it's one of
6 when do we help and how do we figure out how to help. Providing training or retraining
7 for workers only after they receive their pink slip is much like saying to someone just
8 after their thrown overboard, "Would you like a swimming lesson?" It can be interesting,
9 might have been helpful, but oftentimes will be too late. And we're a region in the midst
10 of what I think has to be described only as great economic difficulty.
11 As you exit the building, just by the American flag outside there's a placque
12 on the wall for the Groton, it quotes one of our great American fighters, John Paul Jones.
13 And he said, "I wish to have no connection with any ship that does not sail fast, for I
14 intend to go in harm's way."
15 And certainly the leadership and capability of seamen like Jones, and the
16 men and women who are part of the United States military is of great import to us. But
17 also the people who in his day or in ours make those fast ships should not be forgotten.
18 And just as we have an obligation to the men and women who have fought for us, we
19 have an obligation to the men and women who have provided those materials.
20 The cuts in New England are very difficult. According to the Department
21 of Defense and the Department of Labor, industries in defense and defense-connected
22 areas employ 234,000 skilled workers in New England. Connecticut ranks third in the
23 nation in percentage of work force employed in defense and aerospace related industries.
24 Massachusetts ranks seventh. In fiscal year '90, the Department of Defense expended over
25 $17 billion for projects and research in New England states alone. Here again,
26 Connecticut and Massachusetts were ranked in the top 10 states receiving Department of
27 Defense funds.
28 Now, it's estimated that due to some of the anticipated cuts that we've heard
29 about New England could lose 61,000 private sector defense and aerospace jobs by 1996.
30 Our estimate is that in Connecticut 35,000 defense related jobs will be lost in that same
31 period, and many of them right here in the Groton area. These lay-offs, combined with
32 New England's total loss of over 500,000 jobs in the past three years will further erode the
33 nation's, and certainly this region's, economy.
34 There are a few suggestions that we make, and I'd like to get to them
35 quickly. One, help prime contractors expand their markets. And to that point, let me
36 make clear that the New England Council proposes a focus loan guarantee program that
37 would cover sales to our NATO allies, Australia, New Zealand, Japan and Israel.
38 And what that would provide is a level playing field. There are horror
39 stories after horror stories of American companies bidding on jobs, for example, in
40 Turkey, where they weren't allowed to compete on the same playing field as French firms,
41 where the French provided loan guarantees and our company couldn't get the job many
42 times for things that we have helped to create that other people are replicating. While it
43 has meant some money -- because of copyright -- it's meant no jobs. And that, certainly,
44 is a very serious problem.

Two, we need to encourage the transfer of defense technology to the commercial sector. The whole business of expediting some of that technology transfer since the Cold War obviously has taken on a whole new context, if not ending. Federal aid to research and development programs at colleges and universities is of particular importance to us here in this region. I think that's self explanatory. And we believe that the Department of Defense and the other government agencies should expand programs to affected communities to retrain displaced workers. We believe it's very important to try to get ahead of that in areas where we know that's going to happen.

I want to thank you very much for your presence here today, and your commitment and concern to our region, and thank you for giving me some time to present our thoughts. You have a copy of the testimony.

CHAIRMAN BERTEAU: We do, and we thank you, Mr. Meade. I've had a number of opportunities in the past to be associated with The New England Council. There's a breakfast, legislative breakfast every year -- or, more often than that, actually -- and I've had the opportunity a couple of times to participate in that. You have a remarkable group of people as part of your members there.

MR. MEADE: Thank you.

CHAIRMAN BERTEAU: We appreciate both the recommendations and the additional material that you provided us as supporting evidence to that.

Are there any comments or questions? Thanks a lot.

MR. MEADE: Thank you very much.

MR. HANLEY: Mr. Chairman, the next slot is shared by three witnesses: Mr. Lou Tedeschi, who is the president of the Defense Diversification Strategies, Inc.; and Mr. Ken Wexler and Mr. Peter LaPlaca, who are both vice presidents of the same organization.

CHAIRMAN BERTEAU: Gentlemen, we welcome you. You've got a very interesting and intriguing name here.

MR. TEDESCHI: Mr. Chairman, I'd like to thank you for the opportunity to address the panel here.

We represent sort of a diverse background that we've decided to come together as a consulting company. I'm a product of the military industry complex, having been retired previously and have been working now in the contractor side for the past 12 years, and have been involved in the diversification efforts for the past five years.

Dr. Peter LaPlaca comes from -- he's a professor of marketing at the University of Connecticut, and he has been also a consultant to a lot of commercial companies over the past few years.

Mr. Ken Wexler is a president of New Business Search and Development. He's been involved with commercial companies in the diversification area. So, we sort of combined our outlooks here to present some views on what could be done to aid the diversification process.

Dr. LaPlaca will start off.

MR. LAPLACA: You've heard several people talk about the need to train defense dependent companies in new marketing techniques, and what I'd like to do is take a minute just to show the differences that these people have to face.

After many years of focusing their efforts on defense companies, defense contracts, they are used to the military market place. And some of these characteristics on the slide are what they're faced with every day. Number one, they know their customers. In RFPs that come out of Washington, names of individuals are there, they know who to contact. It's a very complicated procurement process that DoD has, but it is very well defined, so they can follow the steps.

There's public oversight by Congress, by OMB, by public groups and others, okay. There's public dissemination of what the Defense Department needs. It's published so everybody can find that. These companies have devoted almost no resources to marketing efforts. They never had to. They have direct contact with their customers. There's no middleman involved. And there are specific rules that the government provides for costing, accounting data and so on.

Now, if you would compare that with common things in commercial markets, the new field they have to go in to, you will see it's a very different picture. First of all, they don't know who the customers are. It's one thing to say that a household needs a product, or a company needs a product. But who makes the decision? There's no list of names, and these companies don't know how to find those out. It's a whole new area to them.

Secondly, how companies decide to buy these products that defense companies are going to offer is unknown. It's never been studied, and these companies who have to face this unknown decision process are at a loss to figure out what to do. There is virtually no public oversight in the commercial sector, other than cases of fraud. And so, no one is controlling what's going on there.

There is virtually no public dissemination of what customers need. So there's no bulletin board put up, or want ads, "Please give us these products," out there.

Commercial companies devote tremendous resources to marketing. The biggest corporate gamble in the last 20 years, I guess, has been Gillette Corporation, with the sensor razor blade. That was a $200 million investment, $100 million of which was marketing. That's the magnitude it takes to succeed in commercial markets.

Obviously, there are many, many layers of middlemen between suppliers and customers, and defense companies have no track record, have no contacts, have no channels set up to reach the customers. And in commercial markets it's amazing how many companies don't know what products cost them. They just price based on what the customer thinks it's worth, which is not a bad idea.

Now, what is needed in the area of management training to help these companies adapt to these new environments? We've heard several speakers talk today about the need for marketing strategy. Well, as the previous two speakers mentioned, you've got to train people to do that. And it's not just the workers who need the training, it's the managers, too. Having a well skilled work force, which we have here in southeastern Connecticut, and having managers without commercial training is like having a ship with excellent sailors and a captain who doesn't know where they're going. You have to have leadership.

So, we need training for managers in marketing strategy and development. We need training, also, in how to build a distribution network. How to locate middlemen,

wholesalers, retailers and so on, who will go out and cultivate markets. Cultivation of markets is a whole new area for these people. They have to learn how to do marketing research, how to find out who else wants their technology, how can they apply it, how can they fine tune it.

Some of the basic technologies we have in this part of the state, and the whole state, have tremendously broad application in health care, in communications, and in a whole host of things. But management has to be trained how to find that out.

They have to be trained in how to measure customer value. They don't know that. What does the product do for the customer. And, very importantly, they have to have a well thought out, well developed and very efficient and effective means of developing new products to bring them to market.

If you look at some of the defense development paradigms, they just don't work in commercial markets. They're too slow, there is no room for changes as you go along, as commercial market products have.

Now, I'd like to turn this over to my colleague, Ken Wexler.

MR. WEXLER: Thank you.

MR. HANLEY: You have about three minutes, Mr. Wexler.

MR. WEXLER: When I looked at the problem I realized that the State of Connecticut has developed a fairly good program that might act as a good model for what you might do at the federal level. And I'll just describe it briefly.

I think that Commissioner McGee described some of it, but I think he understated some of the facts, that it's a very coherent, cohesive program. He stated some of the specifics.

What really impresses me about it is that he's put together a number of different steps that kind of go together, the different facets. The primary ones I put up here, and I'll just go through them briefly.

He did the survey, which he mentioned, and that's critical. You really need to know who you market is. And a byproduct of the survey was a mailing list. Now the state has a very accurate mailing list of who the subcontractors are and who the contractors are. A very menial sort of thing, but it's important. You have to be able to contact these people.

He developed two key committees, which have helped. There's one committee that's a policy setting/strategic planning committee, very blue ribbon committee, that helps legislative policy being set. There's also a working committee of the major prime contractors in the state. And that helps also set legislative policy, but also helps to see whether what has been said is working. That helps a lot.

The financial assistance, of course, to fund diversification studies, retraining, new product development, new plant and equipment. We've also set up in Connecticut a non-DoD federal procurement office, which is an office in Washington -- it's in the office of the State of Connecticut -- that will help defense companies market to other parts of the government. And I think that's very important. So, we're starting to do that.

Also, we've run workshops in Connecticut on how to do diversification, public workshops, and also a free introductory workshop for individual companies on how

to diversify. That gets people kind of interested, you know, what does it mean to diversify. So, altogether I think it's a nice, coherent program and hopefully has some parts of it that might help you set policy.

And just very briefly, one of our clients asked me to transfer some information to you -- they're a 500 man electromechanical shop, defense dependent, in Connecticut. Three things. One, they said that the subcontractors are being squeezed out because as the money is being cut down, the primes are keeping it to themselves. So what's happening is the money is not being channeled through to the subs.

The second thing, as I said, they are getting more oversight than they ever did. Their business is down, they said, please lay-off some people in oversight. They're just getting more and more people who are trying to get promotions based on finding problems, and there's less things to look at. So they say please do less oversight. And also -- they need oversight, but they just seem to have more than they need.

The last thing was that there had been a discussion within DoD of when something is made by an OEM, it should be repaired by the OEM and that's not happening. What's happening is the repair of the device -- and OEM is an original equipment manufacturer -- what's happening is whoever makes the device is not getting the device back for refit or rework, and it's going to the lowest bidder.

CHAIRMAN BERTEAU: Your guy is recommending that if it's OEM made it should be OEM repaired. The preference ought to be there.

MR. WEXLER: Yeah, well, that's to their interest, of course. But they also feel to your interests, to the DoD, that the OEM has the drawings, they have the understanding, they have the specifications that the repair shop doesn't have.

So, thank you for the time.

CHAIRMAN BERTEAU: Lou, do you have anything you want to add, and then we'll ask questions?

MR. TEDESCHI: Yes. I'd like to just make two brief points up there. The first is, there's two sides of this coin of diversification. The other one really is specialization, which we're the victims of. You know, for those of us that have been around a few cycles, here we go again.

And I think we really need to think about what we can do to avoid that, and DoD should take a very firm stand and try and encourage dealing with diversification. There ought to be some incentives, for instance, for companies who are trying to diversify. And maybe as a long range objective, to deal with companies that are, you know, as a long range goal, obviously of 50 percent diversified.

The last point I'd like to make, and just skip over the other ones, is I think we could do an awful lot without adding costs by changing the rules for independent research and development, which is already there under government contracts. If the rules were changed to encourage the full range of product development all the way through to the decision to launch a new business, I think that would do an awful lot to encourage, you know, the use of that particular fund, rather than being restricted to sort of concept development and proof of.

CHAIRMAN BERTEAU: In that point at which IR&D would cover?

MR. TEDESCHI: All the way through testing a market to see whether that

product or that new service was a viable one. And to the point where you would want to, you know, invest in it heavily so you could launch it.

CHAIRMAN BERTEAU: So you'd have sort of, early production would be the point at which you'd do it --

MR. TEDESCHI: Right.

CHAIRMAN BERTEAU: -- but you haven't yet gone to full scale --

MR. TEDESCHI: Yeah. Rather than just the early, you know R&D conceptual stages. There's still a lot of money that's required to take it from there to that deployment point.

CHAIRMAN BERTEAU: It would make for a longer acronym, as Mr. Dube says.

Others have raised that idea, but I don't think anybody has raised it yet as a continuum, if you will, that you still have the IR&D end of it, but you just expand the back end of what you're eligible, what a company would be eligible to get reimbursed under IR&D.

MR. TEDESCHI: That's right. The mechanism, really, is already in place. There's, you know, no additional funding that needs to be authorized for that.

CHAIRMAN BERTEAU: Dr. Dahlman, you look like you have a question you can't wait to ask.

COMMISSIONER DAHLMAN: Yes. Thank you for the presentation and for the material you gave me. I'd like to ask some questions about the material, but I can't because it comes in a red folder, which means that it's secret in the Department of Defense and I can't divulge anything in here without violating a whole bunch of oaths I've taken.

(Laughter)

COMMISSIONER DAHLMAN: Kidding aside, you have a very interesting thing in here. You talk about one of the things you do is you have identification of dual use technologies. We've heard a lot about that. People say there is a lot of dual use technologies available in the labs and in the companies, that are not really being put out there.

And my thought when I've heard that has always been, if that's true why isn't there some smart guy out there turning a buck by helping people identify those technologies and putting them to good use. And now I hear that you are exactly that brilliant mind to do that, so I'd like to hear how that works. I mean, how do you go about finding those technologies available, and how do you communicate with the companies that can put them to good use? And how do other people turn a buck doing that?

MR. TEDESCHI: Well, the first thing we do is we identify the strengths that our client company has. That's the first place to start. And then we try to find technologies that fit our client. You know, it's kind of obvious, but there are a lot of sources of technology. The federal research laboratories, there are other companies. A lot of it is done by strategic alliance, by hooking up one company with another company.

But we can also look at what DARPA is doing, it's a lot of information gathering, a lot of hooking up one company with another company and trying to find a technology that you can do more than one thing with.

A lot of our clients have developed technologies where they have been paid only to sell it to the military. For example, we have a company that makes a very sophisticated severe environment data recording device and they've been paid a lot of money to sell it to the military. A lot of money because of the -- for good reasons -- but we look for other markets that they could sell that technology into. And they may have to adapt it, they may have to change it, they may have to make it less severe or more severe, or for certain cold environments or for hot environments, or they may have to make it less expensive.

But we look at what they have and we start from there. And then we try to develop their technology to make it fit the commercial markets. That's our main way of doing it.

MR. LA PLACA: I'll give you another example of the same type of thing. We've seen a lot of success during the Gulf War with bombs that went off when they were supposed to go off, and obviously they have excellent triggers in them.

Well, what else needs an excellent, very reliable trigger but an air bag in the car? So, you take the military technology of triggering a bomb, and say, "Okay, another use of this is an air bag." And then you have to modify it, obviously, but an air bag is an explosion. It's a very controlled, very safe explosion triggered by something. So, that's an example of taking a military technology and applying it to a commercial setting.

CHAIRMAN BERTEAU: Any other comments or questions? Gentlemen, thank you very much. This is most intriguing, and of course you thoughtfully left us with a lot of additional backup to plow through that you just summarized there, so thank you very much.

MR. HANLEY: Thank you, gentlemen. The next witness is Mr. Brian Beaudin, senior vice president and director of the Manufacturer's Council of the Connecticut Business and Industry Association.

MR. BEAUDIN: Thank you for the opportunity to come here this afternoon. I promise I will be brief, and I apologize for not giving you a large pile of information to read, maybe that will stand me in better stead, I don't know.

(Laughter)

MR. BEAUDIN: The Connecticut Business and Industry Association, just for your information, is a business organization that represents employers in the state. It is the largest, obviously, in the State of Connecticut, and is the largest of its kind in the country.

We have more than 7,000 members, and they employ over 400,000 employees. Of those, about 2,000 are manufacturers, about 250,000 are manufacturing employees, and if you factor in the actuarial function of 2.2 we are talking well over a half-a-million employees affected by manufacturing just in our membership.

The topics this afternoon, impacts of the defense cuts and how best to adjust -- I wish I could come in and say I do have an answer on how best to adjust, but I think that's what you folks are here for this afternoon. The impacts, just some facts that came from a Kodak study -- meaning, they commissioned it and it was done by M.I.T. and Harvard a few years ago -- every 100 manufacturing jobs create 64 jobs in other

sectors. Every 100 manufacturing jobs create five successful service businesses.

In this state, manufacturing provides 17 percent of the state's personal income, the biggest single chunk. Wages in this state are roughly 33 percent higher than those in the service sector, and in Connecticut we spend manufacturing more than $15 billion on research and development. Obviously, you know probably much better than I that the defense dependency in this state is quite high.

Since 1984 we have lost around 100,000 defense jobs. If we multiply and say that means if 100 jobs create five businesses, maybe that many jobs lost kill 5,000 businesses. That's obviously not a cause and effect direct, but it does have an impact. 64 jobs in nonmanufacturing sectors, if we've lost 100,000 jobs that means 64,000 jobs that effect also their families, that 2.2 factor.

An area that is indirectly tied to defense, obviously, is transportation equipment. In this state in 1989 we had 83,100 jobs. We now have 70,400. So, there's another 12,000 jobs lost, tied to defense. The facts speak for themselves, and I think they tell their own story.

How best to adjust? As I said, I really don't know, but I was at a program this morning in Southbury, Connecticut and a very small, completely defense related company -- a fellow that I've known for years, in fact, grew up with -- came to me and said, "Well, we just had to sit down with an unnamed, but large defense contractor and sign a letter of good faith that said, essentially, everything you currently have on orders from us, if you want to keep those orders you'll have to cut your prices six percent."

That has a tremendous impact on a company with 50 people that are trying to make ends meet as it is, with the rising cost of doing business in this state. What it comes down to is what you've heard, is that kind of company needs help because as the gentleman said to me this morning, "I'm a captive to this particular company."

And what they need is help in learning whatever they make, where can it be made elsewhere? Where can it be sold elsewhere? My suggestion is probably a little bit unorthodox, but I think it would be helpful to go beyond encouragement, which we saw in the previous slides, and create demands. It is much like the Department of Defense, when it came out with regulations saying, "You will have a drug free work place." I think it's really time for the Department of Defense to come out with a directive that says, "You will learn where your products can be sold elsewhere, or you won't do business with us anymore."

Quite strong, but the small manufacturers, the small companies in this state are so busy just trying to make ends meet that they aren't going to go out on their own and look at other alternatives.

So with that, thank you for inviting me here this afternoon, and if you have any questions I'd be happy to answer them.

CHAIRMAN BERTEAU: Mr. Beaudin, I come from south Louisiana and people say names funny down there -- this is a most intriguing proposal here. It sort of turns the current system on its ear, if you will, it says you're either going to be commercially diversified -- in other words, defense will put a premium on doing business with a company that's already commercially diversified as opposed to a company that is targeted solely at a defense program and a defense product. And that, clearly, sort of

1 turns the current situation on its ear.
2 Would you extend that down to the subcontractors --
3 MR. BEAUDIN: Yeah --
4 CHAIRMAN BERTEAU: -- the example of the individual you gave,
5 obviously, he's really a subcontractor, so --
6 MR. BEAUDIN: That's what I -- I am more thinking of that because the
7 larger companies, such as the people who make triggers for air bags, have the capability
8 and the horsepower to be looking, and the enlightenment to be looking. Some of the
9 smaller companies, the subs are the ones that really need that -- they need pressure. You
10 know, maybe not a directive, but they need pressure to get them going to look at some
11 alternatives.
12 CHAIRMAN BERTEAU: They're already in that -- the large companies
13 are already in that situation, effectively, but the smaller companies need to be pushed to
14 do it.
15 Now, does that create problems for them that could in fact exacerbate their
16 difficulties for today?
17 MR. BEAUDIN: I don't know if it would or not, but I don't think it would
18 create any more problems than similar regulatory directives that say you will do
19 everything you can to have a drug free work place, at least in this case. Sure, there's
20 going to have to be another set of administrative people, perhaps, but it's to their benefit,
21 unlike the drug free work place -- which absolutely makes sense -- they don't get any
22 direct benefit from, more indirect.
23 CHAIRMAN BERTEAU: Any other comments or questions? Thank you
24 very much.
25 MR. BEAUDIN: Thank you.
26 MR. HANLEY: Thank you. Is Mr. Domenick Bertelli here, by any
27 chance? Then our next witness is Joanne Sheehan of the Community Coalition for
28 Economic Priorities.
29 CHAIRMAN BERTEAU: Ms. Sheehan, you've been waiting out there for
30 some time, patiently, and we don't mean to try your patience and we really do appreciate
31 it.
32 MS. SHEEHAN: It has been interesting. Actually, I'd like to begin by
33 saying there's a typo. I am from the Community Coalition for Economic Conversion --
34 CHAIRMAN BERTEAU: Forgive me.
35 MS. SHEEHAN: -- and while I see a similarity in what I would see as
36 priorities and conversion, just to correct that.
37 I think I'm coming and speaking somewhat from a different place than
38 several of your previous speakers have. Our Community Coalition for Economic
39 Conversion consists of individuals and representatives of organizations in southeastern
40 Connecticut who are really deeply concerned about this issue and are exploring ways that
41 we in the community can work for economic conversion.
42 We are people who have affiliations with churches, with nonprofit groups
43 that have worked on economic issues in this community. I, myself, have been very active
44 in community land transfer housing, which has created affordable housing in the town of

Norwich, just 10 miles up river from here.

Those positions that we have in the community have given us a very personal connection to what is happening. We are oftentimes the people who are in touch with folks when they begin to have economic hard times. And I find it sad, as someone involved in an organization for affordable housing, that many times we can't even help folks because they don't make enough, that they're too scared of moving out of their substandard apartments to be able to move into something that's really affordable, and that we have seen that problem increase dramatically in the past year.

Defense cuts are inevitable. I think we've seen -- and many, many people have spoken to this today -- the Soviet Union, our enemy during the Cold War is no longer. And we keep hearing the writing is on the wall. But I think the writing is on the wall like graffiti that keeps getting changed over and over and over again, and it becomes different writing.

The writing on the wall that has been in this community for many, many years, I think, is mostly symbolized by the sign, perhaps, you saw coming into Groton on the highway -- that we're the submarine capital of the world. Generations of people have worked there, the hope had been by many that generations of people would continue to work there.

But as is human nature, when the writing on the wall begins to change, people don't often want to face that change, and that we go into a state of denial when major changes take place in our lives.

Those of us in this organization celebrate the end of the Cold War and look forward to the end of weapons production in our region and throughout the world. We know that the reduction of military spending could create massive increases in unemployment, poverty, and stress on individuals, families in our communities. We believe that if we want peace we must work for justice. Therefore, we come together to address economic justice in the context of peace, and to create hope for the future.

On November 9, 1989, the Berlin Wall came down. And I think a lot of us thought that the writing really was on the wall. We couldn't have seen what would have happened, I think, two years ago. But on the other hand, I think that many of us have been speaking about this issue for a long time.

I, myself, was involved in a Trident conversion campaign from 1978 to 1980 in this community, where we did a lot of outreach, recognizing that we were going into a boom cycle but that alternative use plans needed to be put in place, that we needed to look at what else could the workers at Electric Boat, and at the subcontractors, do with the skills they had, and what else could the facilities be making.

We were basically ignored, laughed at and as we went into the boom of the '80s our cry for some alternative use plan basically fell on deaf ears.

I'm fearful, as I said, that although the writing is on the wall, people in this community have such fear of that change that they're unable to really believe that any alternatives, any other kinds of options for them exist at all. We can see a series -- and I have a statement I'll give you -- of a variety of lay-offs that have taken place not just recently, but over the last couple of years.

October 1, 1990, the most extensive lay-offs took place at Electric Boat

since 1977, when 582 employees at Electric Boat lost their jobs just a day before Congressional hearings on the Seawolf. Thousands have lost their jobs with UNC closing, Naval Underwater Systems Center moving.

In May of 1991, General Dynamic stockholders were told at a stockholders meeting here at Electric Boat that the company was rightsizing, basically downsizing. So, even if Electric Boat got all the submarines that they had hoped and planned for, thousands and thousands of workers in southeastern Connecticut were going to be laid off.

And even with that, the plans really weren't put in place enough. I think that our Congressional delegation has made many calls for diversification and conversion, but I really believe very strongly that unless the community has some hope that that's possible, and not just someone's pipe dream, that what they will do is as they have done, is turn around and give support to what they know most, which is the defense industry, so that when Bush announced the cuts of the Seawolf it was the most amazing organizing effort I have ever seen in 25 years of observing change in this country. That everywhere we went there were petitions to save the Seawolf, that the effort of the entire community was behind that.

The writing on the wall got changed again, and it said at that point, "If we try real hard we can still make submarines and still employ southeastern Connecticut." But the newspaper headlines kept coming, "Defense cuts savage New England jobs," "Reports claim region faces major decline." And soon, we saw headlines that said, "Fear of losing job debilitates U.S. workers," "Downturns, lay-offs, make people edgy," and "EB workers, generous in good times, may find charities unable to help."

With job losses more people had more needs. And I think both Mr. Olsson and Mr. de la Cruz really spoke to that, to what happens in the community, that it's not just the worker. And that would be enough, but it goes beyond that. That would be too much, but it keeps going beyond that -- to the small business people, to everyone.

The property taxes in our towns are not getting paid because people don't have enough money to pay them as people are more let off. That affects all of us, and for someone who has children in the school system, that's one of the first places we see those cuts. Our classes get larger and our children don't get what they need.

I'm here to basically say that I think our government really has to help out in this situation, that people's fears and frustrations go into saving the Seawolf because that's all they know, but that what we all have to do as communities is to get together and really have the hope that we can make good jobs for the long run.

I won't repeat some of the other kinds of things that others have said. I think that we have seen that more efforts have been made in the last year, but as Mr. McGee said, from the state's point of view, the state can't do it alone. And certainly the municipalities can't do it alone.

I think that there are a variety of ways that the communities, however, can get involved, and that there's funding that can come into the communities through programs like community development block grants, which I'm familiar with as having received such funds where we create job opportunities in our own communities.

And those very kinds of programs are in jeopardy of being cut back just at the time when we need them the most, just at the times when we need to make affordable

housing, work on our infrastructures, than we're losing those funds. And it is important, I think, to appreciate that the communities themselves have the ability to determine, in many ways, what we need, particularly with the proper guidelines that exist through programs like community development block grant that state that these are for people who really need it, that job creation is a priority and the like.

I think that I also want to speak to the issue of environmental restrictions. I think that we do need to emphasize environmental clean up, environmental protection and that it's a great economic opportunity. My heart sinks when I hear people say we need to get rid of environmental restrictions.

I think one of the first things we really can address is the fact that the Department of Defense has created a massive problem of environmental waste and toxins around bases, and that we can employ a very large number of people cleaning those up. And not simply ignoring the regulations that we should have in order to put people in jobs in those places, but to clean it up first.

What we don't want to find in 25 years is how we've killed more people -- through allowing for the sake of jobs, jobs, jobs -- allowing us to rush into areas where we really need to clean up.

We also can create a lot of jobs, and I think particularly at places like Electric Boat and Pratt and Whitney here in Connecticut through creating alternative forces of energy, using gas turbines, using turbines with clean fuels, and the like.

There are other people other than myself who I'm sure have a lot of those ideas, and I also think that alternative use committees are still a very, very important part of what can be happening, where it's not just management, but workers who really have an important role in that.

One of my fears as I read the paper, and I --

MR. HANLEY: Ms. Sheehan, we're a little bit over, so if you could sort of draw --

MS. SHEEHAN: Okay. And I read that there are a lot of lay-offs and that the major companies like General Dynamics still have profits, I really worry in terms of what is happening here.

So, again, just to say, the writing is on the wall and looking over my clippings I notice that two years and two days ago, on September 15, 1990, an article appeared in our local paper with the headline, "Conversion now a major concern for EB and others, defense cuts prompt need for diversification," that's just more important now than ever before.

CHAIRMAN BERTEAU: Thank you, Ms. Sheehan. I think, if I can try to summarize -- and you have your statement there which I will go through -- your point that the states and local governments can't do it alone -- and forgive me if I sound like I'm putting words in your mouth, I don't think you actually came out and said this -- but is it your recommendation that the federal role would involve essentially providing money so that the state and local programs that are in place could continue to operate; or do you see actually creating new programs that would be funded by the federal government?

MS. SHEEHAN: I would see both. I'm an advocate for community control. I think that that is really important in this democracy that we do not add layers

1 and layers of bureaucracy.
2 My own experience through doing affordable housing work is that when I
3 can deal with the municipality or the state in accessing funds it is much easier than
4 dealing with the federal government, which has an inch long application packet -- which
5 means that the small businesses, the small nonprofits, the groups that in many ways really
6 employ more people, as small businesses do, can't access things directly from the federal
7 government as easily as from the municipalities and the state.
8 Although, I believe the federal government needs to be providing -- as long
9 as it's going to be taking people's tax monies -- it needs to be turning around, therefore,
10 and providing both a policy -- and I think there needs to be policy changes on the
11 Congressional level and funds to then follow that policy through.
12 CHAIRMAN BERTEAU: Okay. Any other comments or questions?
13 Thank you very much --
14 MS. SHEEHAN: Thank you.
15 CHAIRMAN BERTEAU: -- and of course we'll go through this, as well.
16 MR. HANLEY: Our next witness is Fran Buoulay of the Office of Justice
17 and Peace, underneath the Archdiocese of the Catholic Church.
18 CHAIRMAN BERTEAU: Ms. Buoulay, welcome.
19 MS. BUOULAY: Thank you.
20 CHAIRMAN BERTEAU: I was looking forward to you coming to ask you
21 where Norwich was, but your predecessor told me where Norwich is, so now I know and I
22 don't have to ask.
23 MS. BOULAY: Well, I welcome the opportunity to be here this afternoon.
24
25 Again, my name is Fran Boulay, I'm the director of the Office for Justice
26 and Peace of the Diocese of Norwich. And I'm here on behalf of Bishop Daniel Patrick
27 Riley of the Diocese, and I'm here to offer his following statement:
28 "As Bishop of the Diocese of Norwich I send my regrets that I am unable
29 to be present with you here today. However, I do feel one with you because I am
30 attending an interfaith international peace conference in Brussels for this entire week. I
31 expect that we will be discussing similar, if not the same, topics you are confronting now.
32 "I share your concern and commitment to address these formidable issues of
33 our day. As one of the bishops on the drafting committee of the United States Bishops
34 Peace Pastoral, the challenge of peace, God's promise and our response, I will begin with
35 a quote from that document: `The Arms Race is one of the greatest curses on the human
36 race, and the harm it inflicts upon the poor is more than can be endured.'
37 "We are aware that the precise relationship between disarmament and
38 development is neither demonstrated nor easily reoriented. But the fact of a massive
39 distortion of resources and the faith of crying human need creates a moral question. In an
40 interdependent world the security of one nation is related to the security of all.
41 "When we consider how and what we pay for defense today we need a
42 broader view than the equation of arms with security. The threats to the security and
43 stability of an interdependent world are not all contained in missiles and bombers. If the
44 Arms Race in all its dimension is not reversed, resources will not be available to the

human needs so evident in many parts of the globe, and in our own country, as well.

"But we also know that making resources available is a first step. Policies of wise use would also have to follow. Part of the process of thinking about the economics of disarmament includes the possibilities of conversion of defense industries to other purposes.

"Many say the possibilities are great if the political will is present. We say the political will to reorient resources to human needs, and redirect industrial, scientific and technological capacity to meet those needs is part of the challenge of a nuclear age. Those whose livelihoods are dependent on industries which can be reoriented should rightfully expect assistance in making the transition to new forms of employment.

"This pastoral statement will be 10 years old on May 3, 1993. This is not a new issue, and these are not new and radical suggestions of how to deal with this national and international dilemma. Economists, sociologists, military personnel, scientists, theologians, lay men and women have been groping with this issue for virtually a quarter of a century. It is time for the voices to be heard and for action to be taken.

"As a religious leader in Eastern Connecticut, I have been and continue to be deeply concerned for those affected, past and present, in our state and beyond our borders, with the downsizing of the defense industry. However, I have also been deeply concerned for those who have been affected even longer, generation after generation.

"The poor, the disenfranchised, the homeless, these are the people who were and continue to be the forgotten ones in our society, those who, in the midst of military buildup, were left behind because of the exorbitant cost of our military budget. It rested on the backs of the forgotten. It will happen again unless we commit ourselves to work together for the betterment of our entire community, nation, and world.

"As I stated in my recent Pastoral on the Dignity of Work, 'The Church has always taught that we, as society and government, have a duty to create meaningful opportunities for employment of all people. In these difficult times, the concern should be not only to create new, meaningful employment, but also to accept the challenge to find appropriate ways to convert and diversify the economic base.'

"In our willingness to work together and listen to one another, we will hopefully discover the ingenuity necessary to develop creative alternatives for the military industrialized complexes of our nation. We realize that the road ahead will be marked with changes and, in all likelihood, many challenges in lifestyles. Some may find themselves with a new job, others living with a lower wage scale, and others not seeing much of a change at all.

"We need to pledge our support and encouragement to one another along the way. The one constant result will be that we are providing long-range employment and contributing to a more just world order for everyone.

"Let us join together in our commitment to break the cycle of violence in society and forge a path to a true and lasting peace among nations. May we have the courage to strive for policies that protect the rights and dignity of all peoples by promoting economic justice for all. My prayers and blessings are with you as together we embark on this endeavor.

"Sincerely yours in Christ, Most Rev. Daniel Patrick Reilly, Bishop of

Norwich."

CHAIRMAN BERTEAU: Ms. Boulay, you do the Most Rev. Bishop justice in the way you deliver his remarks.

MS. BOULAY: Thank you.

CHAIRMAN BERTEAU: We appreciate that, and you should pass our appreciation back to him.

Bishop Reilly may be interested to know that in fact there are -- at least in my file in the Pentagon, a copy of that pastoral letter has been there for the last 10 years, and it was in fact distributed somewhat widely at the time it was issued and read somewhat widely. I think that the commitment that he ends his letter with, of breaking the cycle of violence and focusing on what the true benefits of peace are, is a very important thing for us to keep in mind.

We're struggling with specific recommendations of what the government should do on specific programs. And you've heard some of the things described earlier today, in terms of eligibility criteria for worker retraining, or access to capital for entrepreneurial spirits, et cetera, and those are all very important aspects and are probably the concrete results of what we're going to see.

The kind of presentation you've made today I think helps us keep in mind a more overarching set of issues than maybe our recommendations might reflect. But it's a very important thing to keep in mind.

MS. BOULAY: That's why I'm here.

CHAIRMAN BERTEAU: And we thank you very much for that.

MS. BOULAY: You're welcome. Thank you.

COMMISSIONER MAY: May I just ask one question?

CHAIRMAN BERTEAU: Yes.

MS. BOULAY: Certainly.

COMMISSIONER MAY: There is also a copy in my file of the Bishop's pastoral, but I'm wondering if the ultimate thrust of his statement is that we should have zero defense spending, or is he congratulating the nation on decreasing the amount of resources that are devoted to defense?

MS. BOULAY: I think the main focus of this statement was to reiterate the human needs that all peoples face in the downsizing of the defense industries, that they have been hurting people throughout the buildup; they are going to be hurting people through the downsizing. And what we need to do is to commit ourselves to working together so that we all will maintain a secure economic base, and there won't be the disproportionment that we've experienced over the past years.

He applauds the downsizing. He worked hard and urgently on the peace pastoral, and continued in that cycle over the past 10 years, and will be commemorating the peace pastoral in our diocese in May of '93.

COMMISSIONER MAY: The principle of proportionality continues, is what you're saying. Thank you.

MS. BOULAY: You're welcome. Thank you.

MR. HANLEY: The next witness is Patricia Wass of Connecticut SANE/FREEZE, the Campaign for Global Security.

Ms. Wass, we welcome you. This is a rather thick packet. I hope you're going to summarize of this.

MS. WASS: I promise not to read every word.

MR. HANLEY: Okay.

MS. WASS: I am Patricia Wass. I'm the executive director of a grassroots organization called Connecticut SANE/FREEZE: Campaign for Global Security, and we're an organization that advocates for a change in our foreign and military policy, a shift in federal spending priorities, and for economic conversion of our military-dependent industry.

In planning for my testimony and thinking about what materials to provide for this committee, I came across the following quote: "Connecticut has the highest per capita military spending in the nation. At least 100,000 people in the state depend directly upon the Pentagon for their jobs, and 25 percent of the state's industrial capacity is geared exclusively to serving the needs of one interest: the military.

This extraordinary dependence has created a unique vulnerability for the Connecticut work force. I know all of this sounds very, very familiar. The interesting thing to me is that it appeared 13 years ago in a book called, "Jobs, Security, and Arms in Connecticut," which is in your packet, written by Marta Daniels and published by the American Friends Service Committee in January of 1980.

As the materials I've provided point out, this problem is not new. Connecticut has experienced a history of boom and bust cycles in its defense industry over the last several decades.

The sad thing is that in spite of years of warnings by some members of Congress, labor unions, concerned citizens, and organizations such as Connecticut SANE/FREEZE and the American Friends Service Committee, nothing has been done to plan for the situation we find ourselves in now.

But now we are not just in another boom-bust cycle. The Cold War is finally over, and the United States is in serious economic turmoil and decline. These two facts argue the imperative of transforming our dependency on military industry to meet the critical needs we face as a nation. They've been outlined before, but just to restate: rebuilding our crumbing infrastructure; reversing the terrible tragedy of 30 million of our own citizens living in poverty; providing adequate health care, housing and nutrition for all Americans; cleaning up our environment; and especially educating our children to meet the challenges of the 21st century.

We cannot do this if we continue to pour one-half our tax dollars into the military to build systems we no longer need for our own defense, and which we certainly should not be selling to other nations for their offensive as well as defensive use.

The rationale most often given lately, at least, for continuing military contracts that had been slated for termination -- the rationale of jobs, jobs, jobs -- is weak at best, because study after study has shown that far more jobs are created in almost any sector of the civilian economy than are created with military spending.

Continuing to build Seawolf submarines and F-15 fighters, to name just two examples, simply because we lack the imagination, determination and commitment to do anything else is, frankly, an outrage.

Converting our military industry to commercial production to meet the needs I've already named must be the top priority for our state and our nation. While economic conversation has been promoted over the years by members of Congress -- and I'm very pleased that we can include most of the Connecticut delegation among that number -- those efforts pale in comparison to the efforts to save contracts like the Seawolf submarine. And it happens not only here in Connecticut but all across the country.

Those measures are short-sighted and counterproductive in the long run, prolonging the agony of the declining defense industry and giving false hope to defense workers everywhere.

The legislation that has passed in Congress is frankly paltry in comparison to the magnitude of the problem -- and in comparison to the magnitude of the military budget. Compare, for example, the recent $1 billion to $1.2 billion package in Congress right now: $1 billion to address the problem of converting the nation's entire defense industry -- the same amount we will spend on one B-2 bomber or one-half of one Seawolf submarine. I ask you, at this point which does our nation need more?

And we need much more. We need a national commitment to economic conversion, and that must be nothing short of a new national industrial policy to convert our industries to meet the unprecedented critical needs in the areas of mass transit, waste disposal, environmental clean-up, communications, or simply to rebuild basic industries we've lost, like steel, ships, machine tools and electronics -- industries that we sacrificed to the military build-up.

In essence, it is the national policy we need to rebuild this country. That's what will really provide jobs --and not just for defense workers, but for the millions of other Americans who have lost their jobs, or who have never had one.

In conclusion, I'd just like to say, the materials I put together for you in these packets speak for themselves. I don't expect you to read every single word. They are, though, comprehensive studies that outline clearly the instability, vulnerability, and the boom-bust cycles of Connecticut's defense-dependent industry over the last two or more decades.

They also articulate the need to prepare for the inevitable decline in defense spending. These materials have been produced over the last 13 years by Connecticut peace organizations. The military build-up of the 1980s often made ours a small and often very lonely voice calling for economic conversion.

But the Cold War now really is over, and this nation is caught without a plan. Will we continue to prop up dying industries by selling more and more dangerous and destabilizing weapons to an instable and volatile world in order to save jobs?

Or will we, instead, face up to the reality and take the bold steps needed to retool our factories and retrain our workers to meet the myriad challenges we face as a nation?

Surely, the scientists, engineers and workers who have made the United States the most formidable military power in the world can use those same talents to rebuild this nation.

I've come to believe that this is not really a technological problem. We have the technological capability. It is a political problem. And the only thing we lack at

this time is the imagination, the courage, the determination and the commitment to make it happen.

Thank you.

CHAIRMAN BERTEAU: Ms. Wass, you have an impressive statement. I think that it's fair to say that much of what you've said is not necessarily inconsistent with our charter, which focuses on federal programs that would help defense-dependent industry become more commercially competitive.

I think in some ways you go beyond what many have proposed here, and I assume it's laid out, as I've glanced through some of the materials here, that there's considerably more detail there.

One particular point -- and you can tell me if it's covered in the material -- has to do with -- you mentioned things like machine tools, steel and electronics, industries that have played in major role in defense manufacturing and production over the years. Some have argued to us that, in fact, it has been that push for technology, that there have actually been some benefits and continue to be some opportunities for benefits in the commercial world.

Do you see a connection there in terms of the spending on technology, or perhaps even continued spending on technology, and linking that to what you call conversion here, or what some people would call diversification or adjustment or whatever?

MS. WASS: Well, I would hope that the things that have been learned throughout the 45 or 50 years of the Cold War military build-up can be translated into helping to rebuild our economy.

I do think there's a danger in thinking too much in terms of dual use technology. I know that's a lot of the direction that the thinking is going. I think that also puts us in some kind of shaky territory in terms of developing technologies that are then going to be difficult to export. We already have a problem with export of technology that we don't want other countries to have. And so I think it's a little dangerous to, frankly, put the Pentagon in charge of civilian industry to continue to develop technologies that will be useful, both in the defense area and also in the civilian sector.

I think it's much more cost effective, frankly, for us to work to develop technologies within the civilian sector and let the defense industry pick up on those technologies if they prove useful in those sectors.

Frankly, the defense industry, at least from my reading, doesn't have an excellent record in cost effectiveness, and we could probably do things much more effectively within the civilian sector.

CHAIRMAN BERTEAU: So you would sort of turn dual use on its reverse, if you will, and let the persons draw upon that.

MS. WASS: Yes, I think somebody else suggested that earlier today, too, that perhaps the defense industry should look more to commercial production to meet its needs rather than always contracting out for specific things that are already made in the civilian sector, which usually end up costing more, you know, the $700 hammers and all of that.

CHAIRMAN BERTEAU: That's certainly one of the areas we're looking at -- not $700 hammers, but in terms of taking better advantage of civilian commercial technology. Right, get them down to $400.

Any questions?

COMMISSIONER MAY: Did I misunderstand you? Did you say that you thought the defense budget was 50 percent of the federal budget?

MS. WASS: Well, there are certainly different ways of looking at it. There is a chart in one of the pieces in your packet which shows that in terms of discretionary spending on the part of Congress, one-half of the tax dollars that I send to the I.R.S., in fact, does go to the Pentagon.

CHAIRMAN BERTEAU: In terms of discretionary spending, that's a fairly accurate statement.

MS. WASS: Yes.

CHAIRMAN BERTEAU: In terms of the overall budget, obviously, defense is only now about 18 percent of the federal budget, as opposed to --

MS. WASS: It depends what you count in there, too.

CHAIRMAN BERTEAU: Well, right. I mean, if you -- that includes the payment on the deficit and entitlement funding as well as discretionary funding. Tax dollars go to much of that as well as to discretionary funding, so --

Any other questions, comments? Thank you very much.

MS. WASS: Thank you very much.

CHAIRMAN BERTEAU: We may have get a larger plane to fly back by the time we finish, but --

MR. HANLEY: The next witness is Mr. Andrew Romegialli -- I hope I'm pronouncing that right -- Directing Labor Representative of District 91 of the International Association of Machinists and Aerospace Workers.

Romegialli, is that close?

MR. ROMEGIALLI: That's correct.

MR. HANLEY: Welcome, Mr. Romegialli. We appreciate your being here.

MR. ROMEGIALLI: Thank you very much for allowing me to speak tonight.

Mr. Chairman and members of the Defense Conversion Committee, my name is Andrew Romegialli, and I'm the Directing Labor Representative of District 91 of the International Association of Machinists and Aerospace Workers.

Our district is District 91, as I stated, and we represent the workers of both Hamilton Standard and Pratt & Whitney, and presently our bargaining unit is 15,000.

On behalf of our members we wish to thank you for this opportunity to speak to you about conversion.

This hearing and its focus on economic conversion comes not a moment too soon as far as the workers of Pratt & Whitney and Hamilton Standard are concerned. As you probably know, our union, the International Association of Machinists, has been speaking of the need to be less defense-dependent for more than 15 years. Unfortunately, many of our most bleak predictions about what would happen with defense workers are

coming true as we speak today.

I wish there was time for you to come to the plants that we represent and speak to the workers. We find that they're scared, that they're anxious about their jobs, and they're anxious about what the federal government is going to do to help them out.

There's an atmosphere of despair among the thousands of workers, many of whom have seniority ranging in the 20-year bracket now. In fact, we have workers with 28 years of seniority, who primarily worked on defense parts at Pratt & Whitney, laid off very recently, and we're looking at further cuts next month.

Their fear is justified, because loss of jobs at Pratt & Whitney or Hamilton Standard right now means they may never come back to work, despite our strong recall right provisions in our collective bargaining agreement. It means you may not even be able to continue to work at the trade that you've learned over many years, and almost definitely will not be able to get a job with comparable wages or benefits that people now enjoy in the defense industry.

It's hard for people to find jobs in today's economy because of the overall recession, not only in this country, but throughout the world. We have seen workers with 30 years at Pratt & Whitney laid off. We have seen a couple, one working at Pratt and the other at Hamilton, both get laid off shortly after the husband was diagnosed with multiple sclerosis.

We have members that tell us that their children greet them at the home with the question, "Daddy, did you lose your job today?" And I got confronted with that last Wednesday on an informational picket line up at East Hartford, when one little child, little boy came to me and said, "Are you going to save my Daddy's job for me?"

Believe me when I tell you that the morale is at an all-time low at these plants and, I would guess, at many other manufacturing plants throughout Connecticut.

Since the beginning of 1980 at the UTC plants that we represent, we have permanently lost more than 11,000 bargaining unit jobs. We know that during that same time period, thousands of salary jobs have also been cut, so the cut goes both ways.

It would be bad enough if this was all behind us, but UTC has made it clear that they expect to cut even more jobs, both through attrition and layoffs.

We have and continue to do everything in our power to convince the company that these cuts, in the long run, are as harmful to them as they are to us. Valuable skills are going out the door that will be difficult to regain at a later date. We have proposed a number of alternatives to layoffs, and we will continue to pursue these possibilities with management.

Of course, not all these job losses are defense-related, but we know that a decline in defense contracts has had a great impact at Pratt & Whitney. Pratt & Whitney cites it themselves, along with the continuing recession, as a major reason for more job cuts. According to Pratt, in 1982 we build 700 fighter plane engines, engines that our people are very proud to build, the best engines in the world. The schedule for 1993 is now down to 50 engines, and the recently approved Saudi and Taiwan sales will have no effect on employment level, either to stabilize them or to build on them, until late 1994, the beginning of 1995.

Pratt & Whitney tells us that their current production mix is 80 percent

commercial and 20 percent military. We estimate that 30 percent of the work of our members at Hamilton Standard is defense-related, and they're going to be hit even harder than the workers of Pratt & Whitney. Currently we're talking about thousands of jobs between the two companies.

It is also clear that beyond business decisions of UTC or any other corporation, that this is a major problem that has to be addressed on a national level.

Since World War II our members have worked under the guidance of a national industrial policy -- even though it was never called that -- of promoting military production. Our members have devoted their lives to the hard work needed to produce those products. They have skills that are matched only by their dedication. All that hard work and expertise now is somehow not enough to keep them employed.

People like this should not be losing their jobs. They do not deserve it, and our country cannot afford to lose the skill base that we have right here in the State of Connecticut.

I'm not a policy maker or an economic expert, but I would say, in my own opinion, that we need a new national industrial policy for this country. If not, I truly believe we're headed for disaster. It seems as though every nation against which we compete has such a policy, aimed at civilian production, and it's working for them, and I ask, why not for us?

My members are not economic experts either, but they ask all the time, "Why can't this country do the same thing for us? Why can't we create jobs?"

Because this is a crisis, strong action needs to be taken. Our union, the International Association of Machinists, has some proposals that I'm sure have been shared with you. I'm not going to go over them because they are in my prepared statement, and I'm sure the Commission knows of them.

I wanted to speak for a moment on the issue of mandatory alternative use committees. I understand that business objects to this proposal, but in many ways it is the most important of all.

We've had a recent experience in District 91 that leads me to say this. United Technologies in the State of Connecticut just announced a unique venture aimed at a new market for Pratt & Whitney. This is a cogenerator based on the JT-90 engine. The state will put up $3 million in guarantees to get the project off the ground, and I'm confident there will be good return on this investment because of the skills of our people. In many ways it's a model for the future.

But I wonder where the federal government is on this. Why didn't they contribute to one of their top defense makers, who made the engine that flew in Desert Storm? Would our involvement have helped in this matter? I think it would, if the company and the state had talked to us. Neither bothered to do so. We found out about it through the newspapers. I believe, as I said, our involvement would help.

We first raised the issue of electric production based on gas turbine engines, the Machinists Union did, in 1984 during an earlier series of layoffs. Our members have a lot of knowledge and many good ideas that they're just waiting to share. We have other projects that we think might be viable if even the chance to work them out.

In the case of the cogenerator we must assume or take it on faith that the state somehow sought job guarantees in exchange for their help. At the same time we cannot help but feel that our knowledge of the work force and our extensive experience in negotiating with UTC would have been helpful in that part of the process, too.

If the Department of Defense, if the state, if the federal government pours money into defense plants without guarantees of jobs, it means little to nothing.

UTC may or may not work on conversion. We hope they do. If they develop a new product, even one based on a jet engine, they may just open up a new division and not involve the workers who were working on defense products at all. We believe the federal government should ensure that the workers that are displaced work in new divisions created, if that's to be the case.

We do not feel that it's right or fair to our members. Based on our experience, we feel it's very important to mandate that Pratt & Whitney and Hamilton Standard at least talk with us and our members about these issues. They may have to be dragged to the table, but I believe once the process has begun, they will see the benefit.

One more point, if I may. We have on our books a Buy American law for purchases by the Department of Defense. Though defense budgets are shrinking and economic conversation is a necessity, it simply does not make sense to me that $10 billion to $20 billion of the defense budget is spent overseas each year by the Pentagon. I've been told that 30,000 jobs are permanently lost for every billion dollars in defense contracts that go overseas. This must be stopped also.

I started by telling you briefly about the people I represent, what they're going through, and how desperate and angry they're feeling right now, right today. What they need more than anything is some reason to believe that there's some hope, that somebody is actually doing something to turn things around and make things better.

That's why I'm here today. I urge you to understand how serious and potentially explosive this current crisis is. Give our members some hope that the future will be brighter because the leadership of this nation is listening and cares. These are good people who have worked hard and deserve the right to a decent life based on that hard work.

I thank you very much for this time.

CHAIRMAN BERTEAU: Thank you, Mr. Romegialli. I, too, regret that we can't come and see of the plants that you're talking about there. In fact, there are enough places that would be worth seeing and going to, that it would take us far longer than we clearly have time for, and I don't think the country can wait that long.

But I will tell you that we've been to a number of other plants, and, in fact, of course, have seen and have talked with a number of both officials and members of other chapters and lodges of your union, and we have heard from some of your leadership as well.

And I think it's fair to say that across the board we have found that the people who are the workers involved here believe very much in what they're doing, care a lot about what they're doing, are very proud of their capability and skill and I think the end products have clearly demonstrated that.

If I could comment on one of your points here from two different

1 directions. You raised the question of the employee involvement in the process of
2 diversification or conversion, and you really raised it from two different angles, and I
3 want to clarify maybe how they fit together in your mind and in the minds of your
4 workers.
5 One is the angle that, in fact, for example, the electricity generation from
6 gas turbine engines is an idea that the union itself, or members had raised almost a decade
7 ago.
8 MR. ROMEGIALLI: That's correct.
9 CHAIRMAN BERTEAU: And from that I gather the idea that -- and we've
10 heard from others as well -- that there are a lot of ideas like this, but there's no framework
11 into which to put these ideas.
12 MR. ROMEGIALLI: Exactly.
13 CHAIRMAN BERTEAU: The second point you raised is that the worker
14 involvement is important because of the benefits that you want to make sure you get out
15 of this, the job guarantees and that sort of thing associated.
16 In your mind, do you tie those two things together, and should the process
17 by which the ideas come in be tied to the process by which the workers' rights and
18 benefits would be rolled up?
19 MR. ROMEGIALLI: Yeah, both have to be tied together. Now, it can't be
20 left just solely to the collective bargaining table because many defense workers don't have
21 representation. This is why we're asking the federal government, through this
22 Commission, to take a look at it, to get the workers involved in the process, and to put
23 some mandates on corporations that they must come together and have a combination of
24 ideas that will build.
25 CHAIRMAN BERTEAU: I think you've hit on a critical process problem
26 there potentially that we'd have to wrestle with, and that is the way in which the federal
27 government's role here, whatever it would be, would interact with the collective bargaining
28 process. And we're sort of walking into territory that's virtually unexplored, at least to the
29 best of my knowledge and experience, if we do that. So --
30 MR. ROMEGIALLI: That's why I say there has to be a combination. Our
31 International has always been for defense conversion, and we're willing to meet with
32 people, meet with the government and meet with companies to get together and get the
33 workers involved, because they're the ones on the shop floor that really know what they
34 can do and what the machinery is capable of doing.
35 CHAIRMAN BERTEAU: Right.
36 Any other comments, questions?
37 MR. ROMEGIALLI: Again, thank you very much for this opportunity to
38 speak.
39 CHAIRMAN BERTEAU: You got right at one of the core issues, and I
40 appreciate that very much. Thank you.
41 MR. HANLEY: The next witness is the Reverend Robert Taylor from St.
42 Paul's Episcopal Church representing the Episcopal Diocese of Connecticut.
43 CHAIRMAN BERTEAU: Reverend Taylor, welcome. My memory and
44 eyesight are getting to the point where I can't swear how long you've been here, so I don't

1 know whether to say you've been very patient or just timely.
2 REVEREND TAYLOR: A little bit of each, a little bit of each.
3 CHAIRMAN BERTEAU: Okay, thank you.
4 REVEREND TAYLOR: Ladies and gentlemen of the Commission, I thank
5 you for the opportunity to come before you this afternoon to share my ideas about the
6 issues of converting the economy, especially of Southeastern Connecticut, from its historic
7 focus of defense-related industry to a diverse and a well-balanced one.
8 As I appear before you today, I wear a number of hats. A week ago I
9 concluded almost 10 years of ministry as the Rector of St. Mark's Episcopal Church in the
10 Mystic area of Groton. I am presently the Rector of St. Paul's Episcopal Church in the
11 Riverside section of Greenwich, Connecticut.
12 During my tenure in Mystic I was instrumental in the establishment and the
13 leadership of the Southeastern Connecticut Clergy Association. This association is made
14 up of the 250 or so clergy working in New London County. The focus of our collective
15 work is the increasingly troubling employment situation in this area.
16 This evening I also represent the bishops and people of the Episcopal
17 Diocese of Connecticut, The Rt. Rev. Arthur Walmsley, Diocesan Bishop.
18 I hope that in light of the constituency which I represent, it is clear that I
19 come before you as a person of faith. In addition to the very real problems of money,
20 food, rent, health care, transportation and clothing, I am concerned with the effect of the
21 downturn of the economy of Southeastern Connecticut, and of the entire state, as it
22 impacts the spirit, the spirit of the citizens who live and work here. To live in fear of
23 what might happen can be even more deadening to a person's spirit than the actuality
24 coming to pass.
25 I have spoken with and worried with people who feared to buy a
26 refrigerator, an automobile, a television, or even to go out to dinner. These same people
27 not long ago were part of the engine that drove the economy of this region. Now they are
28 being careful, for fear that they might lose their job if they have not already done so.
29 For more than a year we have had a book sitting upon the altar of St.
30 Mark's Episcopal Church, and in that book we have asked people to write the names of
31 those they loved who were unemployed. We wanted them and the people whose names
32 were in that book to know that we cared and that they were in our prayers. Many told us
33 that it helped just knowing that.
34 We asked people to put a cross beside someone's name if they were able to
35 find another job. At this point only two or three names have been crossed out of the 25
36 or 30 who have been written in that book.
37 The pain with which people live when they have lost their job, or when
38 they fear that they will, lays a pall over everything they do. The word "depressed" might
39 be used to describe the economy of Southeastern Connecticut as well as many of the
40 people who live here. The cost to the human spirit must be considered if a
41 comprehensive accounting is to be made.
42 For many of the clergy and the other leaders of Southeastern Connecticut
43 the cost to the human spirit of the current reduction in defense and related industry has
44 been exacerbated by the advent of casino gambling in this area. Many of us have spent

endless hours talking with and encouraging people who have had moral and ethical problems being part of the construction of nuclear weapons. Many of these individuals have felt that they had no choice if they were going to provide for their families. However, to be fair, I must say that it has been a struggle for many people, but not all people of this area.

While many clergy of Southeastern Connecticut and throughout the whole of the State of Connecticut rejoice that the United States has begun the most serious reduction in the defense industry in our lifetimes, the cost to the human spirit makes us wonder. For some people, to trade a job building nuclear submarines for a substantial salary for a job enabling people to gamble for an insubstantial salary is much like jumping from the moral frying pan into the ethical fire.

I hope that when you consider the testimony of the many people who have spoken to you today and at your other hearings, you will conclude that the Department of Defense, the White House and the Congress must do all that they can to create solid job opportunities in the non-defense area. For we are not only talking about unemployment, under-employment, 9,000 bankruptcies in Connecticut this year alone, we are talking about the spirit, the spirit of the people who are the United States of America.

People may disagree about many things as we carve out the future of our country. However, all will agree that it is the spirit of hope, freedom, justice, integrity, yes, and even the pursuit of happiness that really makes us the best country in the world to live out our lives and in which to raise our children.

What is happening in our part of the country right now because of the reduction of defense spending is killing the spirit. I urge you to take this wonderful turn in world history and mold it and meld it into the real possibility for creative life that it might be.

The people of this country, the people of this state, the people of this country implore you, empower our economy with productive and worthwhile industry. Enable us to recapture the American dream. Enable us to recapture our spirit.

Thank you.

CHAIRMAN BERTEAU: Thank you, Reverend Taylor. All I can say to that is, we will do our best.

REVEREND TAYLOR: Thank you.

CHAIRMAN BERTEAU: Any questions or comments?

Do you have a copy of your --

REVEREND TAYLOR: I submitted it at the door.

CHAIRMAN BERTEAU: Great. Thank you very much.

MR. HANLEY: The next witness is Representative, State Representative Thomas Moukawsher from the 40th Assembly District, which is Groton, New London.

Sir, it's a pleasure to have you.

CHAIRMAN BERTEAU: Welcome, you have been patient.

MR. MOUKAWSHER: I got here around an hour ago, so that's not that bad. I've waited longer at legislative hearings.

MR. HANLEY: We're actually only about 25 minutes behind.

MR. MOUKAWSHER: That's not bad. We're usually about an hour or

1 two behind.
2 MR. HANLEY: We apologize, but not abjectly yet.
3 CHAIRMAN BERTEAU: Not that we want the standard against which
4 we're measuring ourselves to be that of state legislatures or national legislatures, either.
5 MR. MOUKAWSHER: It depends on which state legislature you're dealing
6 with, of course.
7 CHAIRMAN BERTEAU: That's true.
8 MR. MOUKAWSHER: I do have copies of my brief testimony, which I
9 would like to summarize, rather than read for you. I'll pass these down to you.
10 CHAIRMAN BERTEAU: All right. We appreciate that.
11 MR. MOUKAWSHER: And maybe this will help you catch up a little bit.
12 I am State Representative Tom Moukawsher. I represent Groton, and as a
13 consequence of representing this section of Groton and a portion of New London, I also
14 represent the area covered by Electric Boat. So, needless to say, my district has a great --
15 high stake in defense conversion and in the maintenance of a strong defense, too.
16 I am also a member of the Commerce Committee in the House of
17 Representatives, which was created to deal with the recession, the grave recession that
18 Connecticut has been facing, and I authored Connecticut's Defense Diversification Act in
19 1991.
20 I wanted to keep my message to two very brief points, and that's that from
21 my experience in the legislature and my studying in my spare time, I've come to the firm
22 conclusion that, above all, to transition from a defense-dependent economy into a modern
23 industrial economy this country needs an industrial policy, above all things.
24 It is my impression that we have a lot of the infrastructure of an industrial
25 policy in this country; we have a great number of programs for manufacturing extension,
26 manufacturing research, many of which are in their infancy, and I hope they grow. But,
27 in my opinion, just doing some of my research, there's very little coordination and there's
28 very little sense of a direction that we have to follow.
29 In the meantime, whether it's the Ministry of International Trade and
30 Industry in Japan or the several European equivalents of it, the rest of the world is far out
31 in front of us in industrial policy.
32 The kinds of planning that helped us win the Cold War with the military
33 illustrate for us, in the extreme, the need for planning to win any kind of conflict, whether
34 that's an economic conflict or a military conflict. How could we have won the wars we've
35 engaged in, how could we have won the Cold War if there was not a strategy for this
36 country on a global basis, or at least a rough one?
37 It's my impression, however, that with respect to making this country the
38 number one industrial nation -- which I believe has to be our goal -- again, we need to do
39 it in a concerted way, with one central agency, with liaisons to others, but right now it's
40 plainly not in place.
41 The Defense Department has a variety of organizations, particularly
42 DARPA, the Defense Advanced Research Projects Agency, which does many of the kinds
43 of functions that we need to do in the civilian sector, and necessarily has an effect on
44 private manufacturing in this country, but we don't have as well a funded equivalent in the

1 private sector.
2 And one of the specific things I'd like to suggest to you, and I know has
3 been considered, is dramatic reallocation of those research and development resources
4 from the defense sector into the private sector to promote the manufacture of high value
5 added products.
6 If you look at the goals of the Japanese and you look at the successes of
7 the Germans, it's in making many of the things that this country gave up on, but it's in
8 making the highest value added versions of those, the ones that can command the highest
9 prices.
10 The Germans make the Mercedes-Benz of printing presses; they make the
11 highest ends of machine tools; they're the number one, in terms of dollars, textile
12 exporting country in the world. And that absolutely amazed me. I come from a state that
13 was once very heavily dependent on textiles. We gave up. And the reason we gave up
14 was because we were making products that were long runs of cheaply manufactured,
15 standardized products, with low value added, and all we could afford to do was pay low
16 wages, have bad benefits, poor working hours and things like that. So, naturally, we were
17 thrown out of the marketplace on that.
18 But the Germans realized that they can make those things, and make the
19 most expensive ones of it, pay better wages than this country does, and also give better
20 benefits and better leave policies than this country ever had.
21 The allocation of resources from the defense industry have to be aimed, in
22 my opinion, in that direction, and DARPA is a good example. I believe their funding was
23 around $2 billion when I last knew it. And, of course, there is the need to keep a base of
24 defense-based research and development. But a billion dollars allocated from that into the
25 civilian sector would help this country keep the industrial base, without which we cannot
26 have a military base.
27 This country won World War II and has been a predominant power in the
28 world because we were a great industrial power before we were a great military power.
29 Now we've become a great military power, and we're losing our industrial base.
30 So I would like to see some of those allocations -- I mean, I'd like to see
31 some of the changes put in that direction, but, for God's sake, pursuant to some kind of a
32 plan.
33 Every agency and department with a stake in this so far seems to have its
34 own program, and that, I have to say, applies on the state level, too. We've been running
35 in six different directions at once, too. But we're making reforms, I think, through our
36 Commerce Committee that will help end that. Perhaps the Commerce Department should
37 be the center of that kind of -- perhaps that kind of function.
38 It already has the elements of it, of course. So does the Defense
39 Department, and so do so many other federal agencies. But there's got to be one that is
40 the one and only lead agency on it, and through whom everything else has to work.
41 And one thing I want to emphasize, because so many people, particularly
42 conservative-minded people in this country, market-oriented people in this country, think
43 when you talk about industrial policy, you're really talking about picking winners and
44 losers and bailing people out that shouldn't be bailed out and things like that.

I don't believe in that at all. I believe in taking our industries and identify the people who are being winners on their own and back them up with the support that they need to become even stronger winners, and to carry this nation forward, and to not bail out the losers, but to take the losers and provide them the support that they need in job training and conversion to transfer into other kinds of technologies.

We've got some good examples of that in this state. We've got brass companies in the state who are no longer competitive in much of the brass manufacturing that they've been doing. Our state gave them a substantial bailout, which, in my opinion, has to be more closely scrutinized. They probably couldn't make it with what they're doing, and I don't agree with bailing them out as much as I would agree with helping them transition.

Second of all, we have a classic example of a company that is making it, and to whom the resources of government and the private sector ought to be allocated right here in Groton. The second largest industry here is Pfizer, a giant pharmaceutical company, a research-driven corporation that, in my opinion, has benefitted greatly from changes in manufacturing taxes in this state, credits for research and development, that can equally apply on the federal level and help a town like this, that is so heavily defense-dependent, to have the winner it already has become an even greater winner.

And there's so much that we can supply to a company like that that will cause them, in my opinion, to create their growth here in the United States rather than at their facilities in Puerto Rico and in Ireland and elsewhere. Those are the jobs we can win. They're high-paying jobs, they're high value added jobs, they're research-driven, and we should back them up.

One final point about the Defense Department itself. And this is just my personal opinion, with all due respect to General May and the Air Force. In my opinion, the last thing we have to remember is that the Navy should be sacrificed last. The control -- this country's control of the sea lanes, just as it was for Great Britain, our predecessor in the role that we play in the world, is absolutely the highest guarantor of American security.

Controlling the sea lanes means controlling the flow of raw materials in this country and also guarantees that the flow of our products going out of this country will work as well.

In my opinion, at a time like this, we need to keep a Navy also because a Navy is the hardest thing to build up. Building the infrastructure manufacturing-wise and then building the products, the aircraft carriers, the nuclear submarines, the planes and things like that that go with them takes the longest period of time, and we've got to keep that infrastructure in place while downsizing the Army and the Air Force -- the Army to perhaps a mobile, highly mobile response system that would allow us to project our force around the world. But the Navy is absolutely critical and has always been this country's leading edge in defense and should continue to be so.

And those are really the two points that I wanted to make to the Commission and the two points that I'm trying to drive home here in Connecticut.

MR. HANLEY: You can have an extra 30 minutes if you like, Mr. Moukawsher.

MR. MOUKAWSHER: No, thank you. Did I go short?

CHAIRMAN BERTEAU: Mr. Hanley is showing his past there. What we're actually looking at is the creation of a flying amphibious submersible tank, which would keep all four services happy and be highly maneuverable.

MR. MOUKAWSHER: And would be built in several places around the country.

CHAIRMAN BERTEAU: Built everywhere, yes, so that it keeps everybody happy.

A PARTICIPANT: A tiltrotor.

CHAIRMAN BERTEAU: Tiltrotor, yeah.

(Laughter)

CHAIRMAN BERTEAU: But, seriously, sir, I think that what you've tried to do here is to merge a number of views together into a coherent package, and you've done a good job of doing that.

I think you've touched on a number of things that we clearly have to address in our recommendations. I wish I could tell you where we're going to come down on those. Obviously, I can't. We have a long way to go still in terms of input that we haven't yet heard from.

One of the things that we certainly will look at and will address is the question of coordination or integration of the programs that are there today because this is a comment, I think, that has been almost universal, that we've heard from almost everywhere, even in Washington.

MR. MOUKAWSHER: I think our industrial competition has to be treated like a military situation, and with the strategies and planning that other countries are employing, and I think that would be an excellent recommendation for the Commission.

CHAIRMAN BERTEAU: Charlie, do you want to respond?

COMMISSIONER MAY: I don't want to leap to the defense of Billy Mitchell, but I do want to ask --

MR. MOUKAWSHER: Billy Mitchell is a great hero of mine, by the way, but --

COMMISSIONER MAY: I thought he resolved that issue. But regardless, we had testimony from the leadership of DARPA in which he basically argued, as I understood him, that the DARPA problem is pretty easy to solve because he knows who the customer is and he knows what their needs are.

If he were given the challenge of running DARPA, he wouldn't have that benefit. He wouldn't know who the customer was; he wouldn't know what the customer wanted. And so once you get beyond basic research, 6-1 and 6-2, which applies to the commercial military world equally, how would you solve that problem?

You know, you talk manufacturing. If you just want to concentrate on manufacturing, we already do a lot in that area. But in terms of trying to create new jobs, new industries, take technology to the marketplace, how would DARPA do that without knowing the customer or the market?

MR. MOUKAWSHER: In my opinion, DARPA is well-suited to its role as a defense research organization and ought to stay that way. I didn't want to give them

1 new jobs, I just wanted to steal some of their money and give it to something like a
2 Ministry of International Trade and Industry in this country that could specialize in the
3 field of getting research and development assistance to corporations, to providing
4 manufacturing extension centers around the country, many of which are in their infancy
5 now, and to try and coordinate an industrial strategy that backs up the industries that were
6 still in the leading edge, including in this state the aerospace industry, the chemical,
7 pharmaceutical and medical industries and things like that.
8 But I don't think DARPA could do it either because they know their goal.
9 It's a very different one --
10 COMMISSIONER MAY: The bill calls for an ARPA, as you know, and
11 Gary Demon (phonetic) was just saying, if he had to run ARPA, he wouldn't know how to
12 do it because he wouldn't know who the customer was or what the market was,
13 so --
14 MR. MOUKAWSHER: Yeah, it's going to require an entirely different
15 infrastructure to do that, and probably different leadership to achieve it, because they are
16 experts in the defense field, which, you know, really can't -- in manufacturing, cannot be
17 compared to the private sector that way.
18 COMMISSIONER MAY: Thank you.
19 CHAIRMAN BERTEAU: Any other questions?
20 Thank you, sir. We appreciate it.
21 MR. MOUKAWSHER: Thank you very much.
22 MR. HANLEY: The next witness is Elyse Cann of the Machine Action
23 Project. Sorry to keep you waiting, ma'am.
24 COMMISSIONER MAY: Ms. Cann, the Chairman left me in charge, and I
25 know you have been here, I think, since 1:00, or shortly thereafter.
26 MS. CANN: Yes, I have.
27 COMMISSIONER MAY: And we appreciate your perseverance and
28 interest in our proceedings, and we look forward to your presentation. Of course, you
29 already gave us some advance reading, so we look forward to you summarizing that for
30 us.
31 MS. CANN: Thank you. I'll try to stay awake if you will.
32 I work for the Machine Action Project in Springfield, Massachusetts, and
33 we have been hired by the state, the state's Industrial Services Program to conduct
34 research on the defense industry and to ascertain the level of defense-dependency in the
35 state and what small firms are doing about that.
36 I'd like to begin with some quotes from three of the firms that we
37 interviewed in the past month. "Last year I advertised for two $6-an-hour jobs. That was
38 my big mistake. Every day I had people lined up outside for applications. There were
39 old people, young people, women with babies, begging me for a $6-an-hour job.
40 "They talk about family values. People want to work. They want a job.
41 We've been in this business for nearly 100 years. I could give them a job, but I can't
42 compete with foreign prices, ruthless banking policies and no support for manufacturing."
43 "I shouldn't tell you this, but insurance costs, health, workers compensation
44 have gotten so high that I'm going to co-sign with the union a letter of support for

national health insurance. It's the only way to help small businesses survive."

"I think it's a conspiracy. We're losing our marketing share to Germany and Japan in the machine tools industry. The only sector we protected was defense, and now, with the cuts in defense and the environmental regulations, it's a bleak outlook. I won't be hiring anyone, even if things pick up. I'm investing in labor-saving technologies."

These are the comments of small manufacturers in Massachusetts, manufacturers who relied upon the defense industry for a significant portion of their revenues. They do the work that the primes parcel out, and their story is an important part of the defense story.

These small- and medium-sized, locally-owned and operated firms represent the crisis facing our state and our nation. The United States is shedding its industrial base like an old skin. A myriad of factors beyond the control of small shops, union members and workers, and regional economists are combining to strip our nation of the industrial capacity to rebuild itself.

The United States won the Cold War in one sense, but in another sense the Cold War was won by our competitors, Japan and Germany. While some may rest and relish in the rapid decline of the Soviet Empire, others look deeper, to the problems wrought by so much emphasis in our nation to the winning of the war and so little attention to the people in the firms which built the victory.

Since World War II, the U.S. has embarked upon a mission to be the most technologically advanced weapons maker in the world. The best of our national resources, our skills and our capacity for research and development were focused upon our defense infrastructure. Our national policies allowed other industries to export jobs and import goods, but our defense industry was sacred. Our nation is not only neglecting its manufacturing base, it is intentionally driving it to low wage areas of the world.

The Machine Action Project, a state-funded agency created in 1987 to attempt to stem the loss of jobs in the metalworking industry of western Massachusetts, has been following industry trends for years and intervening to save jobs where limited federal and state monies permit.

Initial studies by MAP of the regional economy disclosed an intricate web of 350 machine shops and metalworking support services that run north on the Connecticut River from Hartford's aerospace giants.

Later studies portrayed a region rich in skills and sporting the newest in technologies. Even now, these firms support as much as 20 percent of the private sector employment in some of the local communities. As large defense contractors are cutting their work force and their lists of suppliers, each local firm waits to see if it will make the team.

Our research on the state's economy showed that Massachusetts received a disproportionate share of defense dollars, particularly in the area of research and development. These monies reshaped the face of eastern Massachusetts, creating the defense corridor on Route 128 and spawning the electronics and computer industries.

Today Massachusetts sits on a precipice. The machine tools industry, once centered in New England, is now concentrated in Germany and the Far East. The

computer numerical control cutting tools industry rests in Japan. The computer industry is restructuring, and tens of thousands of jobs are being lost.

The Industrial Services Program of the Commonwealth, the quasi-public agency that handles Title III dislocated worker monies, recognized early on that unemployment claims were on the rise in defense firms. The ISP applied to the EDA for funds to assess and respond to this situation. Due to the failure of the Pentagon to release these monies, well over a year passed before the ISP could begin its response.

They then contracted with the Machine Action Project to conduct statewide research on defense dependency. Our research is ongoing, and we expect a report in November, but let me report to you some of our preliminary findings and the policy recommendations based upon our history in the industry.

We have talked extensively with over 90 CEO's of five- to 200-person shops in the plastics, metalworking/ machining and electronics industries. Our selection of firms was random from a list of 1,100 Massachusetts manufacturers we identified as small prime or subcontractors in the defense industry.

First, in general, firms in all these three industries are not hiring. If there is a need for additional workers, they are temporarily increasing hours and introducing labor-saving processes. They claim that health care costs are a major factor in not hiring new employees, and continued levels of high unemployment in this industry can be expected for years to come.

Second, small firms are angry at both the State of Massachusetts and the federal government, which, they claim, is paying attention only to large firms. Several mentioned initiatives, like the Free Trade Agreement, that will only serve to drive more major corporations to Mexico and, in the words of one owner, "Kill small manufacturers." Horror stories about the banking situation abound. Many small firms claim they kept good credit ratings only to be undermined by the savings and loan scandal, and the resulting regulations and credit squeeze. Everywhere, small firms claim there is no capital available for expansion, investment or new ventures.

Cash flow problems were cited by many firms which are not receiving timely progress payments from prime contractors. Some primes are not making orders subsequent to the bidding process.

In addition, government military contracts are being stretched out and, in the worst case, small manufacturers are being asked to have available a range of goods which may or may not be purchased. They have been asked to quote prices for a range of possible parts of amounts and told to prepare for both large or small contracts.

Third, in response to government demands for precision and the highest standards of quality, these firms purchase new computerized technologies and technical staffs which now place an extreme burden on overhead costs. They relied upon a phone call or visit to primes for work orders and developed no marketing or sales capacity of their own.

Moving into the commercial marketplace will require support, especially for machine shops. Nondefense dependent shops have less overhead and can charge a lower price for the same quality service or product. Many firms lack even a business plan.

Fourth, moving into the commercial market requires, at the same time, more

flexibility and standardization, leaving firms the responsibility of retraining both managers and workers and refiguring the entire production process.

Fifth, firms have had little inhouse training capability for either labor or management. Many management skills, especially in machining, were learned on the job. Also, no training or retraining programs exist.

Specifically, firms in the metal working machining industry are the most at-risk of the three industries. Of the over 500 Massachusetts machine shops that we identified as defense dependent, there exists an excess capacity of as much as 50 percent.

Due to the similarity of the skills and technology and work process of many of these shops, the state could easily lose 200 of them by the year 2000. These shops were built on the pillar of defense and with its fall, they have no support. Those that will survive -- and, in fact, many are healthy -- will do so because they have a proprietary product or process and a current share of the commercial market.

Electronics firms tend to have more in-shop engineering and strategic planning capability. They have the capacity to explore other markets. However, electronics firms are heavily dependent upon defense. Essentially, there is no commercial electronics industry in Massachusetts. That exists in the Pacific Rim. Where defense work was spun off, it goes to the Pacific Rim.

Defense dependent electronics firms say their equipment and technology is outdated and shifting to commercial markets will require the purchase of new equipment.

The U.S. has had an industrial policy for a half a century, driven by the needs of the Pentagon and prime military contractors and research institutions. It is time for a new world order, one that includes an industrial policy that redirects the use of our national resources, our skills, our people, our small and large firms, and one that looks towards a sustainable future.

The federal government must help level the playing field among states, establishing a national health care system and a sane workers compensation system for all. Environmental regulation should not vary from state to state, allowing some states to risk their future for job attraction today.

Take economic development out of the hands of the Pentagon and create a new agency of economic conversion, jointly administered by Labor and Commerce. Through it, expand greatly the National Institutes of Standards and Technology Extension Services to provide a clearinghouse to evaluate capital equipment purchases, coordinate with local higher education institutions to bring marketing assistance to the firms and the regional planners.

Incorporate training functions and labor management skills development into one-stop technical assistance centers across the nation that are federally funded and locally controlled.

Write into every prime contract in excess of one million dollars a provision that requires planning by a labor and management team for alternative use of the production process. Smaller firms and subcontractors should be given tax credits for initiatives to redirect their resources into commercial production. Demand prime's fair payment schedules for small firms.

Free up credit for investors who live and work and create jobs in local

communities. Loans and grants should be made available for employees to buy into their companies and for firms to enhance skills and expand operations. Laws must be expanded to one year of advance notification encouraging states to respond rapidly with additional resources.

Firms should be allowed to use federal dollars and local education and training facilities to retrain the existing workforce while they are still on the job. Workers and managers should be allowed extended time frames for retraining, at least two years of supported assistance in full-time programs.

Research and development must be redirected to the commercialization of an energy efficient infrastructure and the utilization of scarce resources. Our highly skilled engineers and technicians must be fully redirected towards developing the technologies of the future.

Our nation must move from economic adjustment to a national commitment to redirect the economy through a federally financed, locally administered industrial policy. A national strategy to save the manufacturing base must be put into place immediately by representatives of small and large business, by labor and by community.

Federal dollars available from Defense Department cuts should be invested to create wealth, not merely used to provide transfer of payments and alleviate the suffering after the fact. We can win the peace, but we must put America back to work.

In the words of one near-retirement machine shop owner in Massachusetts, "I make my living selling parts for guns and bombs, but I don't support it. Russia isn't going to invade us. Saddam isn't going to invade us. We should stop producing weapons and start making trains, transportation systems, public works. This country has to do what it did in the 1930s. Call it what you want, but we have to create jobs in this country."

Thank you.

COMMISSIONER BERTEAU: Thank you, Ms. Cann. I think of all the hundreds of people that we have met with and that have appeared before us, I think you have more recommendations in fewer pages than anybody else that we have had, and there's such an array of them, it's difficult to digest them rapidly.

If I could ask you a couple of questions, though, because it is such a wide array of recommendations, have you looked at all on what kinds of money might be involved in doing this at a national scale?

MS. CANN: Well, I think we're talking about billions of dollars of cuts in defense spending and, certainly, that provides a ready resource of funding for many of these programs.

I think states would be much more willing to put money, matching money, into programs if there were something available, but so many of their resources right now are tied up in alleviating the impact of job loss and additional social services programs that they've had to pick up over the past few years.

COMMISSIONER BERTEAU: You're not recommending that those alleviation dollars be cut, only that you reduce the need for them by the up front idea?

MS. CANN: Right. I can see a greater tax base in this nation if we create more jobs.

COMMISSIONER BERTEAU: With the small businesses that are

1 represented and covered here, some folks have alleged that it's easier for those companies
2 to adapt to change than it is for the larger businesses. In the years that you've been
3 working with these people, has your experience borne that out? Is it easier for them to do
4 it?
5 MS. CANN: There's a great variation and some of them have no clue at all
6 as to what to do. Many of the small machine shops that we've worked with over the past
7 five years or so have said that they always just call Pratt & Whitney. They called
8 Hamilton Standard. They called GE. They said, "Do you have any orders for me? I can
9 pick them up tomorrow." That was the kind of relationship that many of these firms had.
10 Now, those orders don't exist anymore and they stretch out of many of the
11 contracts, the cutting of the supplier lists; some of the firms have gotten letters from prime
12 contractors saying, as somebody mentioned earlier here today, "We would like you to
13 decrease costs and increase quality every year for the next five years." They're saying,
14 "How can I possibly do both things at the same time without assistance from somebody
15 and nobody is coming in to help me?"
16 COMMISSIONER BERTEAU: We did hear today from one defense
17 contractor, our first witness today from Textron-Lycoming, that his company was actually
18 bringing work back inhouse that previously, under a make-or-buy decision, they had
19 contracted out. His rationale for that was because it's a government-owned, contractor
20 operated facility, and he's got a certain amount of government work that has to be
21 maintained in there in order to support his commercial base.
22 However, in our discussions with a variety of other prime contractors, a
23 couple dozen all-told, the vast majority of these have presented figures to us, evidence to
24 us, that says they are actually going in the opposite direction or are actually contracting
25 more work out now than they were before, as they try to downsize their own workforce
26 and facilities to accommodate what they see as the reduced demand.
27 Have your data that you have borne out anything one way or the other? Is
28 that something you've looked at through your survey process?
29 MS. CANN: That's something we -- and I should say that we haven't
30 completed the survey process yet. We're still in the process and all of this is very rough
31 data, but I will say that firms are saying that what orders they're getting are smaller, and
32 they are not seeing an increased amount of work.
33 Now, we do work with some firms who are smaller, higher-end shops, and
34 they have a very strong relationship and they are getting increased orders, so it seems like
35 this qualifying process is going on, and that some firms are already in. They're on the
36 team, and some don't know if they've made it yet and some are out of the picture.
37 COMMISSIONER BERTEAU: Do you have a timetable that you expect to
38 finish your analysis of the survey work, et cetera?
39 MS. CANN: Well, we have a deadline of November. We are hoping that
40 we'll finish and I'd certainly be happy to pass on our results.
41 COMMISSIONER BERTEAU: That would be great because that would
42 give us just enough time to actually look at it before we lock ourselves in and I think
43 we'd really appreciate that. Does anybody have other questions or comments?
44 Thank you very much. This is most comprehensive. Thank you.

MS. CANN: Thank you.

MR. HANLEY: The next witness is the familiar Mr. William D. Moore, President of the Southeastern Connecticut Chamber of Commerce.

MR. MOORE: Mr. Chairman, Members of the Committee, my name is William D. Moore. I'm the president of the Chamber of Commerce of Southeastern Connecticut and it's not my intention to go through every page that I've just handed you.

I understand that you've had a rather long day, and I know there are others who need to speak following me, but I would like to let the Commission know that I am representing a Chamber of Commerce Federation locally which is comprised of five Chambers of Commerce representing 6,000 businesses in the geographic boundaries of New London County.

An important issue for the Commission, as I see it, and as we discussed somewhat yesterday, is: Does the federal government have an obligation to help those communities that are being impacted by defense reductions. I believe the answer very clearly is yes.

The economy of Southeastern Connecticut, as you know, is extremely defense dependent. On a per capita basis, we are the most heavily dependent county in the country. The year that figures are most readily available for is 1989 and we received almost $9,800 per capita. Fort Worth, Texas, came in second at approximately $2,700 per capita.

I've included a copy of a report that was put together for the State of Connecticut -- the executive summary, rather. It was put together by Regional Economic Models, Incorporated, out of Amherst, Mass., that gives three scenarios as to what could take place, given defense cutbacks.

This county has a payroll in 1989 of approximately $2.2 billion. Of that, $1.7 is directly or indirectly dependent upon defense spending. That kind of helps to crystallize the nature of the crisis we are facing here today. The REMI report will give you an indicator of what the losses to New London County will be.

Under the best case scenario, we are looking at a decline of 13,000 jobs, a loss of $746 million in total personal income, disposable income being reduced by $580 million, and over the next five years, a $35 million net increase in transfer of payments. In addition, gross regional output will decline by 10 percent. That's our best case scenario, as indicated by REMI.

The worst case scenario obviously would paint a much dire picture, with 27,000 total job loss and regional output declining by 25 percent.

Most of the recommendations that I'd like to present can only be addressed by Congressional initiative. I recognize the importance of the Commission and the impact that your recommendations will have. Ideally, they will be listened to by the Congress as they consider defense reductions.

Briefly, what we are proposing is the permanent extension of selected expiring tax provisions, including the Research and Experimentation Tax Credit and Allocation Rules, the Education Assistance Exclusion and the 25 percent deduction for health insurance for the self-employed.

The U.S. Chamber of Commerce estimates the private companies will

1 increase research and experimentation investments by some $18 billion if the tax credits
2 I've mentioned were extended. Reductions in the capital gains tax rate of 15 percent for
3 individuals and corporations and indexing it to inflation is another key method of support.
4 As a matter of historical fact, capital gains tax reductions have proven to be
5 a revenue raiser for the federal government. The 1986 Tax Reform Act significantly
6 increased the cost of capital and stifled economic growth by increasing business and
7 corporate taxes by over $120 billion in five years.
8 One of the most significant impacts of that reform was the change in the
9 active/passive tax laws for real estate investment. Those laws certainly need to be
10 revisited to see if we can't stimulate additional interest in the real estate markets.
11 . Consideration should be given to develop proposals to prevent the loss of
12 intellectual knowledge from the regions which are being impacted by defense reductions.
13 Perhaps this could be accomplished by funding centers or think tanks in the regions and
14 using the process by which private firms can access declassified information.
15 These centers could then develop the products for commercial application
16 and help to identify the markets that could make use of the products. The creation of a
17 consortium for marketing the intellectual talent to countries foreign to our shores is
18 something that could benefit all of us, particularly as we're seeing changes in Eastern
19 Europe and in Asia.
20 By that, I mean expertise such as banking expertise, developing credit
21 applications, even helping out with environmental needs that countries may have, perhaps
22 some limited nuclear assistance to help countries such as the Soviet Union with their
23 program over there.
24 I'll skip to a couple of pages ahead. One of the most significant costs of
25 doing business in the Northeast is the high cost of energy. Indeed, Connecticut, in 1989,
26 ranked number one in terms of the cost of energy, averaging $10.68 per million BTUs
27 according to the U.S. Department of Energy. Interestingly, the next highest was
28 Washington, D.C. I don't know if there was a corollary, but it was only ten cents off of
29 our mark. It's food for thought, I guess.
30 In any event, a comprehensive, world balanced energy policy must be
31 developed which will encourage cost effective efforts to improve conservation and
32 encourage production and distribution of traditional and new forms of energy.
33 Southeastern Connecticut knows well the benefits of nuclear power.
34 We have been blessed with the presence of a Connecticut Yankee in East
35 Chatham and a millstone in Waterford and we provide fully 90 percent of the nuclear
36 power in the State of Connecticut -- 100 percent in the State of Connecticut, 90 percent of
37 the electric power in the state.
38 Oil companies and natural gas companies have difficulty in their own
39 processes. They must obtain 17 major permits and comply with 90 sets of federal
40 regulations in order to operate on the outer continental shelf. Perhaps visiting those areas
41 can help to make energy dependence grant us energy independence.
42 You've got our full package before you. I won't bore you with any of the
43 details. I thought I would just like to touch on some of the aspects that we are concerned
44 about, as you continue your deliberations.

We believe and I believe that the Commission can significantly help to mitigate the impact of the defense reductions our region is facing and those regions across the country that are facing similar reductions. Obviously, we are well aware that we are not living in a vacuum and we are not on an island.

The recommendations that come from this Commission can help to establish a national agenda which will lead to job creation and increase productivity as we head towards the year 2000. I appreciate the time you've granted me to appear before you and would be happy to entertain any questions the Commission might have.

COMMISSIONER BERTEAU: Thank you, Mr. Moore. We also appreciate your assistance in orchestrating some of the additional conversations we have had and inputs we've had yesterday as well as this appearance today.

I certainly take your advice that what the Commission says and does may or may not have any influence on Congress, but we certainly have some indication that they're going to pay close attention, and we're taking that aspect of it very, very seriously.

One just clarifying question, if you will, because the statistic is a new one to me. The National Chambers' statement that if you permanently extended the R&D tax credit, it would lead to an $18 billion increase in R&D expenditures, what time period is covered by that $18 billion?

MR. MOORE: I believe they were referring to over the next five years.

COMMISSIONER BERTEAU: Five years? Okay. Otherwise, I think what you've got here is a good summary and we'll go back and look carefully over the parts that you had to skip past for the sake of time. Does anybody have any additional questions?

COMMISSIONER MAY: I would just like to add my thanks for all the work that Mr. Moore did yesterday to facilitate our meetings. Thank you very much.

MR. MOORE: I'm pleased to have been able to help. Thank you.

COMMISSIONER MAY: Thank you.

MR. HANLEY: Thank you, Mr. Moore. The next witness is Mr. Kenneth Payne, who is the Federal Projects Coordinator in the Office of Senator Claiborne Pell of Rhode Island. Senator Pell's statement is a lengthy one. It will go in the record. Certainly, if you'd like to summarize it, sir?

Just to remind any of those who may have come late, if you give us a statement that will be included in the record and if you prefer to summarize it, that gives the Commission an opportunity to talk to you about it a bit more.

COMMISSIONER BERTEAU: Mr. Payne, welcome, and we certainly appreciate the interest not only of yourself but of Senator Pell in our proceedings here today.

MR. PAYNE: Thank you very much. I see that a significant portion of the panel left as I sat down, which is fine.

COMMISSIONER BERTEAU: It's only an indication of how long we've been sitting here. It's no reflection upon your arrival, and I suspect that most of them will be back very, very shortly.

MR. PAYNE: When I went to my first meeting about defense economic adjustment or defense conversion, the room was about the size of the area under the exit

1 sign and the total number of people there were probably the same that are now at your
2 table.
3 The Senator walked in and he said, "I've been thinking about some pieces
4 of legislation I should introduce," and they ended up as portions of the Defense
5 Authorization Act for 1991, which provides $150 million to the Department of Labor and
6 $50 million to the Economic Development Administration, so that, really, you can have
7 very small beginnings with some pretty significant outcomes.
8 I think a key to recognize is that we're at the starting point in a process that
9 has been really brought upon us more rapidly than we would have foreseen. We weren't
10 expecting to be doing what we're doing today two years ago, and I think your work,
11 therefore, is especially critical because you're engaged in a game of catch-up ball. We're
12 trying to catch up. That's one important message I would leave with you.
13 Another important message is that our estimation of the difficulty of
14 defense conversion is that it's more difficult if the underlying economy or the ambient
15 economy is difficult.
16 So, as you look around at regions of the United States and say, "What
17 should we be doing here," you have to look at the nature of the economy of that region
18 and what the long-range projections are because that will, in part, indicate what difficulties
19 will be encountered by the people in that area and the firms in that area, in making
20 conversions.
21 We, in New England, of course, and I won't belabor this, but we, in New
22 England are in a severe recession and it's expected to be a protracted one. We would
23 hope that you could be cognizant of that.
24 Further, I think it's very important that you not only look for or try to
25 identify problems, but also look for opportunities. I will quickly describe what I think is
26 an opportunity that has occurred to the Senator and certainly to his staff because of his
27 prodding, and that is, where will our country be ten years in the future with regard to the
28 utilization of resources in the exclusive economic zone, that area which is defined by the
29 200-mile limit?
30 That's a very interesting question because we may not need those resources
31 now, but we may be wishing to use them 10 or 15 years hence. If we ask ourselves that
32 question and then we ask ourselves, "Where is the premier capacity potentially in the U.S.
33 to look at those resources?", we have to include the southern New England area as one of
34 those places.
35 We have General Dynamics, a firm extraordinarily adept at working
36 underwater. We have the Submarine Signal Division of the Raytheon Corporation. We
37 have very fine research universities. We have the Naval Undersea Warfare Center. We
38 have tremendous capacity.
39 The question is: How do we plan to use that capacity to yield benefits 10
40 years in the future? If we just allow that capacity to dissipate, the opportunity will
41 dissipate, as well. So, I think one of the things you should be doing is looking at those
42 kinds of areas of opportunity.
43 One of the things we're acutely aware of is that opportunities don't know
44 state boundary lines. They tend to occur within regions rather than within discrete state

1 boundary lines. One of the vexing problems is trying to get interstate cooperation to
2 occur.
3 With regard to defense conversion, firms could do partnering and might be
4 very interested in trying to pursue a commercial or private sector opportunity, but those
5 two firms may be in different states. It's very difficult for states by themselves to make
6 an investment in something that's happening outside the state.
7 Senator Pell, as Chairman of the Foreign Relations Committee, one of the
8 few sitting Chairmen of the Foreign Relations Committee that has been re-elected, and I
9 assure you that making investments in the other person's yard is not the way to win favor
10 in your own household.
11 States have an extraordinary difficult doing that and yet, it may be precisely
12 that type of structure that's necessary to accomplish conversion because opportunity does
13 not know geographic boundary lines.
14 Another thing that has become --
15 MR. HANLEY: Excuse me, Mr. Payne. If you wanted to share your time
16 with Congressman Reed's representative, we're getting down to the line.
17 MR. PAYNE: Okay, I shall do that. I think another thing we have to do is
18 watch out for workers. That's critical. One of the things that we have to consider doing
19 forthwith is to have utilized those resources that may exist within the Defense Department
20 and the Armed Services to provide transitional assistance to dislocated defense workers,
21 especially in the area of provision of health care.
22 That's something that should be explored forthwith while we're looking at
23 ways to utilize COBRA and potentially our national health care coverage. But for a
24 family going through the trauma of unemployment, it's critical.
25 I'd like to introduce, if I might, Nancy Langrall from Congressman Reed's
26 staff. She came up and would like to have a statement entered into the record.
27 COMMISSIONER BERTEAU: While she's on the way up, could I ask
28 you, the last proposal that you made, is that expanded on in the statement here?
29 MR. PAYNE: Yes, it is.
30 COMMISSIONER BERTEAU: In terms of transitional assistance and
31 providing health care?
32 MR. PAYNE: That's right. That's included in there.
33 COMMISSIONER BERTEAU: I'll look at that and then get back to you if
34 I have any further questions.
35 MR. PAYNE: What I'll do is yield to her and then let you all ask me
36 questions, as well.
37 MS. LANGRELL: I'd just like to interrupt for a minute. My name is
38 Nancy Langrell. I'm here on behalf of Congressman Jack Reed who is in Washington
39 today. I am respectfully submitting to the Commission testimony for the record. Thank
40 you so much.
41 COMMISSIONER BERTEAU: Thank you very much. We'll be glad to
42 take a look at it. Thank you.
43 MR. PAYNE: Have you any questions for me?
44 COMMISSIONER BERTEAU: Let me come back to the health care thing

1 and make sure I understand what you're proposing there. You're proposing that DoD
2 health care providers --
3 MR. PAYNE: That's right.
4 COMMISSIONER BERTEAU: -- would, in fact, make their facilities and
5 doctors and health care people available to the families of unemployed defense workers?
6 MR. PAYNE: That's correct.
7 COMMISSIONER BERTEAU: This would be defense prime contractor
8 workers only?
9 MR. PAYNE: Our thinking is certainly defense prime contractors, but
10 those people who could be certified as being dislocated defense workers, prime or
11 subcontractors, that might then have the resources, let us say, of a Navy hospital in the
12 same area where they may be without medical coverage. It's a tremendous -- it's one of
13 the areas where Senator Pell receives the most wrenching human interest stories.
14 COMMISSIONER BERTEAU: Certainly, yes.
15 MR. PAYNE: It's, "What do I do? I've got this huge medical problem. I
16 can't afford medical insurance anymore and I feel threatened."
17 COMMISSIONER BERTEAU: Right. The reason I raise it, I mean, we've
18 heard a number of those stories today. We've also heard from prior witnesses today that
19 one could make an argument that 60 percent of the workforce in the State of Connecticut
20 is somehow connected to defense industry and that at least one-third of the workforce in
21 the State of Rhode Island is somehow connected to the defense industry. That raises the
22 prospect, at least, of very long lines forming outside every defense medical facility, at the
23 very least, so I'll be intrigued to look into more detail at the proposal there.
24 MR. PAYNE: We would like you to study that suggestion very carefully.
25 We don't propose that there is sort of an elixir out there that can solve all problems, and
26 you have to sort of nickel off problems a percent at a time, and if you can solve 10
27 percent of a problem or 5 percent of the problem, that's far better than solving none of the
28 problem, so that trying to solve portions of problems is critical to getting on with the
29 business at hand.
30 COMMISSIONER BERTEAU: Any other questions or comments?
31 Thank you very much, sir.
32 MR. PAYNE: Thank you, very much.
33 COMMISSIONER BERTEAU: You are aware, I suspect, that we are
34 having a hearing in Washington, as well, and Senator Pell has been invited to appear at
35 that hearing.
36 MR. PAYNE: We are absolutely aware of that. We plan to be there and
37 we're working on legislation on this topic as we speak, as well.
38 COMMISSIONER BERTEAU: I'm delighted to hear that. Thank you very
39 much.
40 MR. PAYNE: Thank you.
41 MR. HANLEY: The next witness is Mr. Barnaby Horton and he is
42 representing State Senator John Larson as well as Melody Peters, President of the Thames
43 Labor Coalition.
44 COMMISSIONER BERTEAU: The what Labor Coalition?

MR. HANLEY: The Thames Labor Coalition.

COMMISSIONER BERTEAU: Right. I thought you were pronouncing that river wrong. You sound like somebody who goes to a different country.

MR. HANLEY: Right.

COMMISSIONER BERTEAU: You were in the Army, right, so you couldn't be expected to. Okay. Mr. Horton, welcome. Thank you.

MR. HORTON: I apologize. I'm here representing Melody Peters who would be delivering testimony for Senator John Larson of the Connecticut State Senate, so I will quickly read through these remarks and then --

COMMISSIONER BERTEAU: If you want, you can just leave them with us and we can read through them, as well, but whatever your instructions are, please follow them.

MR. HORTON: Let me just -- why don't I read just a brief --

COMMISSIONER BERTEAU: Some of the high points.

MR. HORTON: Melody Peters is the President of the Thames Labor Coalition and the New London Central Labor Council, AFL-CIO, and would be presenting this testimony for Senator John Larson.

In 1990, Senator Larson and Congressman Sam Gejdensen co-sponsored a Connecticut Conference on Economic Diversification to explore what was being done, what needed to be undertaken, and what new methods for diversification might prove successful in our state.

Over 150 persons, primarily in the manufacturing area, attended this conference with one outgrowth being the enactment of House Bill 63.91 which created a funding mechanism to help defense contractors diversify their businesses.

This was done by increasing the bond authorization to the Manufacturing Assistance Program by $10 million and dedicating these funds to both defense and nondefense diversification projects hurt by the defense cuts.

Senator Larson, who has been extremely concerned with diversification for some time convened a series of hearings in February of this year to address issues specifically confronting East Hartford businesses and workers affected by the proposed reduction of aircraft-related jobs over the next two years.

These hearings were scheduled in response to a January 21st announcement by United Technologies which detailed a massive reorganization program that substantiated many of our deepest fears. UTC called for the cutting of more than 13,000 jobs worldwide, more than 6,000 being lost here in Connecticut.

Some of the recommendations that came out of this were there was a consensus at these hearings that economic conversion was clearly the hope for the future. Senator Larson was recognized for his efforts in convening a task force to study the use of advanced gas turbines, based on jet engine technology for generating electricity.

In the past year, the Connecticut State Legislature has adopted legislation to redefine manufacturing for the purpose of tax relief, including business tax credits for the purchase of various types of equipment and components.

Included are initiatives on international trade assistance, including the establishment of a trade show assistance fund to stimulate exports, made improvements in

1 our efforts to promote tourism, included a partial rebate for real property taxes for
2 manufacturers located in distressed municipalities, provided a $110 million in loan
3 guarantees for the Connecticut Works Job Fund.
4 In addition, this Act expands the range of businesses eligible for defense
5 diversification funds under the Manufacturing Assistance Act. Any businesses that will
6 create jobs for unemployed defense contractors qualifies for the fund. I believe that's all
7 I'm going to say this evening.
8 COMMISSIONER BERTEAU: Mr. Horton, are you familiar with this
9 Manufacturing Assistance Act process?
10 MR. HORTON: I am not, no.
11 COMMISSIONER BERTEAU: Okay. Perhaps we'll contact the Senator
12 directly on that.
13 MR. HORTON: If you need more information, I can send word that we
14 can --
15 COMMISSIONER BERTEAU: All right. Thank you very much.
16 MR. HORTON: Okay.
17 COMMISSIONER BERTEAU: We appreciate it.
18 MR. HANLEY: Thank you, Mr. Horton. The next witness is Ronald
19 Petronella, the Connecticut State Commissioner of Labor. We are honored to have you
20 here.
21 COMMISSIONER BERTEAU: Mr. Petronella, welcome.
22 MR. PETRONELLA: I've been working with this committee through Bill
23 Lesano (phonetic) which supplied a lot of the names and a lot of the logistics for this.
24 COMMISSIONER BERTEAU: It's been most helpful and so far, I would
25 say the visit has exceeded our expectations, so we appreciate all the help.
26 MR. PETRONELLA: Good. Commissioner McGee was here today, and I
27 served with him on the Business Opportunities Defense Diversification so we've been
28 involved in this for quite awhile.
29 COMMISSIONER BERTEAU: If you could pull the microphone a little
30 closer there, I'd appreciate it.
31 MR. PETRONELLA: I gave a statement when I came in. Our office has
32 sent statistics to you, the numbers, the figures.
33 COMMISSIONER BERTEAU: We have that in our background book.
34 MR. PETRONELLA: So, I'll just go through this. Welcome to the Arsenal
35 of Democracy. Connecticut workers helped win the wars throughout our country's history,
36 as well as the Cold War, but we know the needs of the nation are changing.
37 My topics today: (1) the ramifications of defense cutbacks on Connecticut;
38 (2) how we hope to diversify our industrial base; (3) our training and retraining programs
39 and needs; and (4) our involvement with the Transition Assistance Program, known as
40 TAP, for those leaving the Armed Services.
41 On one, ramifications, a book produced by the Congressional Office of
42 Technology Assessment this year points out that one in five workers in the Norwich/New
43 London labor market holds a defense job. The current economy offers few well-paid jobs
44 to take their place.

Then there's the ripple effect. Many more are in service, transportation and commercial jobs that serve the every day needs of these workers.

(2) Diversification: How to lessen the pain by diversifying our industrial base. The report to our State Legislature and Governor from the Commission on Business Opportunity, Defense Diversification and Industrial Policy, of which I am a member, lays out preliminary ideas on the topic.

Three specific goals for the new economy: (a) a world-class globally competitive education and training system that produces skilled, entry level workers and continually upgrades their skills and supports research and development; (b) systems of unemployment and workers compensation that are fair and less expensive; and (c) spending to create a modern infrastructure of energy, transportation, telecommunications, housing, that would add jobs in construction and related industries.

Three, training from the $150 million discretionary national reserve fund for workers laid off because of defense cutbacks, Connecticut has requested and received assistance for two groups of workers: (a) $1.5 million, shared with Rhode Island, to assist laid off workers by the Electric Boat division of General Dynamics here in Groton. These lay-offs were in connection with a reduction in the Seawolf submarine program; and (b) $400,000 for those laid off by United Nuclear, a UNC subsidiary based at nearby Monville, manufacturers of Navy nuclear propulsion units.

If more lay-offs occur, we will submit additional applications on behalf of other defense-related workers. Also to assist laid off workers, we set up a special outplacement office at Electric Boat's transition center. There, we certified about 800 people as dislocated workers and offered job counseling.

Our Unemployment Insurance staff set up a special site at the Avery Point Campus at the University of Connecticut to registered workers laid off by Electric Boat. Nearly 200 former employees took advantage of it.

We fear a flight of skills from our state if no replacement jobs are created. We have been able to use only state, not federal, money to re-educate current employees in converting from defense to commercial products.

Briefly, some of these state funds have gone toward training managers to help their company survive in the commercial market.

Four, attack: Early intervention benefits those leaving military service. Most have never held a full-time job in the private sector and probably need extra help. The 90 days notice they received from the military before separation from the service helps.

At the Naval Submarine Base in New London, we are working with the Department of Defense and the Department of Veteran Affairs to assist service people in their transition to the private sector. This is part of the national Transition Assistance Program, or TAP.

Many of these people will be leaving Connecticut, so we tell them about the Interstate Job Banks System and the veterans service offered nationwide. We provide skills to make suitable education or career choices. Our veteran employment representatives make clear that giving veterans job placement preference is a national policy.

From January to August of this year, 224 soon-to-be-separated service people attended two-day workshops. The program soon will be extended to provide information on benefits available to disabled veterans. As an offshoot to TAP, Connecticut veteran representatives now offer workshops at various locations in Eastern Connecticut to all veterans registered with the job service.

In conclusion, new helicopter and tank engine contracts are only a temporary reprieve. If the state's economy is to thrive, defense-related jobs must be replaced with other employment paying similar wages. That's a problem.

Mark Twain, who spent many of his most productive years living in Hartford, wrote a piece called "The War Prayer," that depicts the horrors of war. Despite all troubles that cutbacks in the defense industry will cause, we should be grateful that it will be economic pain, rather than the physical pain of war.

With the help of the federal government, through retraining and retooling, we can improve the future of those adversely affected. Thank you for stopping here on your travels across the country. May you find the answers we all need to help the nation reduce the negative impact of defense cutbacks.

COMMISSIONER BERTEAU: Thank you, Mr. Petronella. Did I hear you say that all of the retraining money that the state has expended so far has been state money and you haven't had any federal money there?

MR. PETRONELLA: No, just in that one case.

COMMISSIONER BERTEAU: Just in that one case?

MR. PETRONELLA: No, just in that one case.

COMMISSIONER BERTEAU: I was thinking that earlier today, we had heard discussions of Title IV money.

MR. PETRONELLA: We have federal money we've used.

COMMISSIONER BERTEAU: I just wanted to make clear in my mind as to where that was. Any other questions or comments?

Thank you, sir. We appreciate your being here and we appreciate your help in pulling all the rest of this together, as well.

MR. PETRONELLA: Thanks for coming.

MR. HANLEY: Mr. Chairman, Mr. Petronella was the antepenultimate witness, the penultimate one being Mr. Carl Rood from Innovative Design and Casting. Is Mr. Rood still here?

COMMISSIONER BERTEAU: I am delighted to hear that, Mr. Hanley.

MR. ROOD: Good evening.

COMMISSIONER BERTEAU: Mr. Rood, welcome.

MR. ROOD: Thank you for coming to Connecticut.

COMMISSIONER BERTEAU: It's a lot better than Washington, let me tell you.

MR. ROOD: You've got some nice weather. You're lucky people, I'm telling you. I'm vice president of a private business, Innovative Design and Casting, and I started it 12 years ago after getting out of the Navy. I was in for four years. I'd done Naval Intelligence for two and was with submarines.

COMMISSIONER BERTEAU: If you could speak directly into the mike,

we could hear you a lot better.

MR. ROOD: Okay, thank you. It's my nerves.

COMMISSIONER BERTEAU: I know if you were in intelligence, as I think I heard you say, you have some avoidance of microphones, but that's okay.

MR. ROOD: So, during the past 12 years, I've listened, because of the nature of my business, to literally hundreds of ideas of new products, but the one thing I learned very quickly is that the people who had the money really had no interest in new ideas.

The people who had the ideas had very little money. It's with that that the businesses continue in a much smaller form. I'd like to read to you an editorial that they printed in the paper that I wrote. The title is at the top and they titled it, "Taking Advantage of the Cold War's End."

"To the Editor: Governor Lowell Weicker is committed to expanding the Marine Research Center at Avery Point; however, available large-scale facilities must be used as an integral part for regional diversification for new product development.

"You must certainly be aware of the funding available and the greater need for creating a New London facility devoted to new product research and development. It is time for environmentally necessary efforts to be made, such as diesel emission control systems, waste-to-gas generation, and alternative energy sources like hydrogen.

"The peace dividend is a double-edged sword that is greatly affecting this region. Some communities have successfully survived closure of major military installations, assisted by federal funds available to find other ways to use those facilities.

"Past federal funding has assured that the Naval Underwater Warfare Center in New London is a state of the art R&D facility. Since the relocation of its primary operation in Newport, this facility will become available to the community, including a Civil War fort.

"Early recognition of its potential might help retain onsite equipment and personnel needed to enhance the opportunities for job skill acquisitions and R&D. Teaching is better than unemployment.

"Since nonprofit organizations such as educational institutions are not shackled by the mandated expenditures businesses must incur in supporting this type of endeavor, and since the Naval Underwater Weapons Center was once a University of Connecticut branch campus, combining the cognizance of an educational institution with the development of new products is not a new idea, but rather one which has historically worked until displaced by more profitable industry, such as defense.

"Change is a necessary experience. A change back from excess to basics, like quality of one's work and commitment to a better future through research innovation, is a change whose time has come."

I would like to take this opportunity to say that if such a facility existed, I would take advantage of it and having listened to all of these people with all these great ideas, I'm not to say I haven't plucked a few and put some together.

I will not bore you with a technical description of a system which deals with effluent; however, your byproducts are hydrogen, pure water, soil enhancement. You can picture a barge, two-stories, a closed environment with a wetlands environment

basically on the main deck. In discussing this concept with many people, they've said, "Good." A Japanese firm who is the equivalent of Union Carbide said, "Please expand upon this. We like this."

So, any small person might have something which can keep people busy and at the same time, I think we've really gotten stuck in the concept of profit. The entire state has been dealing with "profit."

I am working part-time for a small foundry in which she is keeping her doors open. She has never done a military contract and yet, the cost of unemployment and workmen's comp is actually rising. She does not have that kind of profit margin that other companies have had.

I think that one example which was bounced around is that a person who is going to go on unemployment, instead of being given money, give them the opportunity to treat it more like a student loan, a little encouragement to return as quickly as possible.

Not too many people are going to leave the country and we all have social security numbers. If it is a student loan, there is a bit of an interest rate there, not to say that we'd want to use that toward welfare payments.

However, in my experience with people and their ideas, so often, they look to military hardware and they look at surplus, which has actually been used up, and it's very clear that after World War II, a lot of military equipment came back in the civilian sector. We haven't seen that after recent conflicts.

There are processes to follow to get this equipment but there is really limited access. A business which can find a use for a product or a facility, preferably a product or a component, in an agreement to utilize a component and then, in a 50/50 situation, turn around and purchase this component from the original source, obviously not at the same price that the government paid, but still, someone would be benefiting from it.

We are dealing with ex-military coming back into the community which we haven't done too well with in the past, and those individuals with whom I've been associated are very highly trained, highly motivated, despite some of the things they've been through.

We are looking at a very serious health care situation and it doesn't take that much for a person to walk in and have someone look at him and say, "How are you?" and pull out his record.

Because of the training and because of the level of professionalism, I think that we are missing a bet if we don't give these ex-military an opportunity to go into the urban areas, within the neighborhoods, within the satellite health clinics, in other words, no more than a sick call that you would find with some little ensign or -- not an ensign or some little petty officer looking at you and saying, "Well, hmm, take two aspirin and go home."

You have an opportunity to document a person's condition and it just lends itself to saying, "Hey, here is something to do that's necessary, okay, and you're still a part of the structure." Other than that, that's all I've got, and thank you for putting up with me.

COMMISSIONER BERTEAU: Thank you, Mr. Rood. I think you've pointed out a number of things, I think, that have been raised before. You tied them together in a different way. Let me ask you a little more about the editorial that talked

about the facility would let new companies or other companies use it as part of their expansion.

Would you limit the access to those facilities in some way or how would you control who sort of gets to use it, if you will?

MR. ROOD: Once again, if you structure it, because of our present business structure, we pretty much have to go with nonprofit, okay, and that's nonprofit R&D. I can't believe that you are going to turn away someone who is able to have conceptually some kind of a concept that is reasonable, okay?

We are making some attempts to assist a small person in starting his business, but we all know that we have one man in one office at this time. As we do have this off-shore 200-mile limit, we do have the high tech people and in so many cases, you have an individual who looks at our present structure and says, "No way. I may have this idea." He has been working for years but he's not going to get out there and go for it.

It's the new product which means the new job. That's the bottom line. Without encouragement, we do have an incubator. Once again, it's a small start. It's a good start, but we need to say, "Look. What else are we going to do with it? What has it been doing? What do we need?"

We need to find things to make, preferably, vessels -- that's what my little barge is, something which is historically appropriate to the area, meets environmental needs.

I'm sorry to rattle, but I would hate to limit, okay, a facility, especially in a nonprofit educational environment. That's why I'd structure it along those lines.

COMMISSIONER BERTEAU: Any other questions or comments?

Thank you very much. We appreciate it.

MR. ROOD: Thank you.

MR. HANLEY: We have only one more scheduled witness, Mr. Chairman, and that is Ed Munster, a Connecticut State Senator.

COMMISSIONER BERTEAU: Mr. Munster, welcome.

MR. MUNSTER: Good evening.

COMMISSIONER BERTEAU: Yes, it's now passed into the realm of evening. I'm afraid so.

MR. HANLEY: The good news is we scheduled Mr. Munster in for 7:00 o'clock and miraculously, it's now 7:02.

COMMISSIONER BERTEAU: Let the record show, sir, that you are among the most punctual of all individuals who have testified here today, whether through serendipity or design, I'll leave that up to you.

MR. MUNSTER: One of the committees I serve on in the State Legislature --

COMMISSIONER BERTEAU: Yes, if you get close to it, we'll hear you better, thank you.

MR. MUNSTER: One of the committees I serve on in the State Legislature is the Banks Committee. It has a reputation for punctuality. Not so for the other committees.

COMMISSIONER BERTEAU: We appreciate that, sir. All right, you may

proceed.

MR. MUNSTER: Thank you, and thank you for the opportunity to speak before the committee this evening. As you know, I wasn't on the list of printed folks. I read about this in the paper this morning and decided I wanted to come down.

I am State Senator Edward W. Munster. I am also a candidate for the U.S. Congress for the 2nd Congressional District here in Connecticut. Good paying jobs for the men and women in this district are my top priority.

I have a record of accomplishment in the State Legislature and have listened to the Economic Development Commissions and the Chambers of Commerce when they ask for help for small businesses in our towns.

I have proposed tax abatement legislation for small businesses which was signed into law by the Governor earlier this summer. One of the things that happened to me on the way here this afternoon -- everyone has one of these stories once in awhile.

I stopped at a printer to order some materials and relayed to him a comment that a woman had made to me earlier this week when she told me that the American dream of owning your own business is fast becoming a thing of the past. I mentioned this to the printer and he said, "Wait a minute." He said, "I want to show you something."

He went to his office and he came back with this stack of cards. He had sent out 1,400 sort of business type cards out to encourage business for his print shops, to a list of 1,400 people that he had culled out of the businesses that had gone out of business up until October of this year. He had a pretty clean list.

He sent it out in June and between October and June, these are the companies in Connecticut that have gone out of business, some 117 of them. I counted them as we were sitting here this afternoon. That was out of 1,400 in about seven or eight months. It's a terrible statistic but it was very graphic and it illustrates one of the problems that we have here in Connecticut.

The point is that that which we can do for small business -- small businesses represent a tremendous portion of the employment in this part of the state, but throughout the United States.

There was a regional article in The Wall Street Journal indicating that I guess the major corporation employment in the nation had dropped from something like about 20 percent of the employment force down to about 11 percent, which means that these are the kinds of companies that are, in fact, employing most of the people in this country these days. It's a growing proportion.

A major area of concern in this part of the state is the consequence of reduced military spending with the end of the Cold War. In the '70s and the '80s, increased military spending boasted our economy.

Twenty-nine Seawolf submarines were on the drawing boards to be built, but we must be realistic and recognize that our nation's spending on defense in the '90s is going to be less than the defense spending has been in Eastern Connecticut for the last previous two decades.

We must prepare for the changing economic conditions by encouraging diversification in our local economy. I support the federal economic conversion provisions

contained in House Bill 5006, the Defense Authorization Bill for fiscal 1993.

The House of Representatives' version of the bill earmarks a billion dollars of the fiscal year 1993 defense budget to help laid off defense workers, military personnel, weapons contractors and communities to adjust to the rapid drop in defense spending. This is only a first step down the long road to help our citizens economically recover from the devastation of a shrinking defense industry.

The bill contains elements to help the people of Eastern Connecticut who are suffering as a result of the severe recession in this area. These proposals and others yet to be developed must be tailored to the needs of the people of our region.

We have a very talented, highly skilled workforce who have been the backbone of our defense industry. We have service-oriented employees in this region whose businesses have flourished because of the presence of the defense industry.

But we cannot forget all the people who live in our district and our state who build the jet engines which power the most sophisticated bombers and fighters and the nuclear submarines, all of which have made it possible for the Cold War of the last 50 years to end. These people are the real heroes, entitled to the same consideration we give others who have fought the good fight for our country.

I'd be happy to take any questions and I thank you for the opportunity to be here this evening.

COMMISSIONER BERTEAU: Thank you, Mr. Munster. In fact, I'm delighted to know that you found your way here by virtue of the article this morning, because we frequently try very hard to make sure everybody knows we are here, but all we can do is put the word out and where it goes, we don't always know.

That's a very interesting statistics there in terms of your printer's mail-out. I hope that's not a reflection, actually, of the capability of the U.S. Mail system to deliver the mail rather than the other way around.

Does anybody have any questions or comments?

COMMISSIONER DAHLMAN: I do.

COMMISSIONER BERTEAU: Carl?

COMMISSIONER DAHLMAN: Senator, I hear you sit on the Senate Banking Committee in the State of Connecticut. We have all heard a lot about the shortage of capital, especially for small companies around Connecticut, and I wonder what your views on that are. Why aren't the banks lending? Do they have the money or is it lack of money?

MR. MUNSTER: One of the things that I find a bit frustrating about the lack of working capital for business, in my view, the banks took a real beating and whether that was their fault or somebody else's fault, I'm not trying to lay blame, but in the real estate investments that they were involved in, in making loans for them. As a result of that, they've grown very shy with respect to making loans to businesses at all.

I have seen a number of situations in which businesses have not been able to get working capital, where they have signed contracts, even letters of credit, to back those contracts, and still haven't been able to get the banks to forward them the kind of capital that they need in order to actually carry out those contracts, and have had to turn down contracts.

I think that there certainly is a good deal of a problem with respect to the lack of capital available for actually carrying out projects in manufacturing businesses. I think that that's something that we all need to work on trying to recognize the difference between the risks involved in the various kinds of loans that these banks seem to be shying away from right now.

COMMISSIONER DAHLMAN: Is there anything you can do on a state level about this?

MR. MUNSTER: Well, I heard earlier testimony that mentioned the fact that much of the activity at the state level and maybe at the federal level, as well, is geared towards large businesses, and that the small kind of companies are suffering as a result of being just ignored.

Their needs don't fall into the same category of urgency as an employer that might have thousands of employees, whereas, these kind of guys maybe have two, three dozen, a couple of dozen, people working for them.

They may disappear. They fall through the cracks and nobody pays any attention and nobody really notices. I think that's -- we've got to get more involved in trying to keep the American dream alive of owning and operating a small business.

COMMISSIONER DAHLMAN: You said that the Governor, on your suggestion, had signed a small business tax abatement legislation earlier this year. Can you tell us what is in there a little bit, quickly?

MR. MUNSTER: Well, what we saw was -- I had a small business, Economic Development Commission, in one of the towns that I represent, come to me with a problem, because many small businesses either are going out of business or they are moving -- if they are successful and are thinking about expanding, they are moving out of state. Connecticut has not been known as a place that has a very good climate for business.

We thought, "Well, what could we do to help them?" and we worked out a tax abatement program which would, for businesses that are thinking about expanding, allow the local communities to abate the local property taxes for up to three years, 50 percent of the value of the expansion for up to three years.

For example, that program is geared at businesses for which the expansion might be in the range of a hundred to five hundred thousand dollars. Previous to that, the only state programs available required much larger investments in order to qualify for such programs.

COMMISSIONER DAHLMAN: Is it working?

MR. MUNSTER: It is. In fact, people are applying for it and the Department of Economic Development in the State of Connecticut are getting a number of calls. Actually, it goes into effect October 4th, the fiscal year starting October 1st.

COMMISSIONER DAHLMAN: Good.

COMMISSIONER BERTEAU: It's too bad you hadn't done that a year ago. We could use that as an example of a success story, but it may well be something that's part of the answer there. We appreciate that.

MR. MUNSTER: Thank you.

COMMISSIONER BERTEAU: Is that still Joanne out there that I'm

1 staring into the light at? I mean, you're really invisible to me, but I recognize the design
2 of your jacket there.
3 I think by and large, you are the only one here who is not connected with
4 the hearing, so I'll thank you on behalf of all the citizens of New England for the hearing
5 today, and thank the City of Groton for allowing us to have it here, and all the wonderful
6 input that we've had today. We appreciate it very much.
7 With that, the hearing is adjourned.
8 (Whereupon, at 7:15 p.m., the hearing was concluded.)
9 * * * * *

GROTON PUBLIC HEARING
FINAL ATTENDANCE, SEPTEMBER 17, 1992

Time	Name	Representation
1:00 pm	Chairman David Berteau	DCC Opening Remarks
1:08 pm	Mr. David Assard	Textron-Lycoming
1:23 pm	Mr. Michael Franklin	Southeast Area Technology and Development Center
1:35 pm	Ms. Naomi Otterness	Office of Sam Gejdenson, U.S. House of Representatives
1:51 pm	Mr. Robert Fromer	Private Citizen
2:02 pm	Ms. Eleanor LeCain	Massachusetts Sane/Freeze
2:16 pm	Dr. Diane Disney	Office of the Governor of Rhode Island / Defense Economic Adjustment Project
2:31 pm	Mr. Ralph L. Klein	SM Stoller Corporation
2:45 pm	BREAK	
2:58 pm	Ms. Janet D. Pierce	United Way of Southeastern Connecticut
3:08 pm	Mr. Harold Payson III	State of Maine Planning Office
3:19 pm	Mr. Gene Gitelson Mr. Stephen White	Veterans Leadership Program Veterans Leadership Program
3:32 pm	Mr. John Caron	Caron International
3:48 pm	Mr. Joseph McGee	Connecticut Economic Development Commission
4:00 pm	Mr. Mel Olsson	Marine Draftsmen's Association UAW Metal Trades Council
4:06 pm	Kenneth De La Cruz	President, Marine Draftsman, UAW 571
4:15 pm	Mr. Peter G. Meade	The New England Council, Inc.

4:21 pm	Mr. Lou Tedeschi	President, Defense Diversification Strategies
	Mr. Peter LaPlaca	Vice President, Defense Diversification Strategies
	Mr. Ken Wexler	Vice President, Defense Diversification Strategies
4:39 pm	Mr. Brian Beaudin	Connecticut Business and Industry Assn.
4:46 pm	Ms. Joanne Sheehan	Community Coalition for Economic Conversion
5:00 pm	Ms. Fran Boulay	Office of Justice and Peace Representative of the Bishop Norwich Diocese Catholic Church
5:10 pm	Ms. Patricia Wass	Connecticut Sane/Freeze
5:22 pm	Mr. Andrew Romegialli	International Association of Machinists, District 91
5:38 pm	Rev. Robert Taylor	Episcopal Diocese of Connecticut
5:46 pm	Hon. Tom Moukawsher	State Representative - Groton/New London
5:59 pm	Ms. Elyse Cann	Machine Action Project
6:18 pm	Mr. William Moore	S.E. Connecticut Chamber of Commerce
6:28 pm	Mr. Kenneth F. Payne	Office of Claiborne Pell, U.S. Senate
6:35 pm	Ms. Nancy Langrall	Office of Hon. John Reed, U.S. House of Representatives
6:40 pm	Mr. Barnaby W. Horton	Office of State Senator John B. Larson
6:44 pm	Mr. Ronald Petronella	Connecticut Department of Labor
6:52 pm	Mr. Carl Rood	Innovative Design & Casting
7:02 pm	Mr. Ed Munster	U.S. Congressional Candidate Connecticut State Senator

7:14 -7:15	Chairman David Berteau	Closing Remarks
7:15	Hearing Concluded	

GROTON PUBLIC HEARING
APPENDICES OF WRITTEN MATERIAL

Name	Written Material Presented
David G. Assard Appendix A	✧ Statement of David G. Assard, President, Textron Lycoming Turbine Engine Division Before the Defense Conversion Commission
Michael G. Franklin Appendix B	✧ Written Statement of Michael G. Franklin, Executive Director of Southeast Area Technology Development Center, Inc.
Naomi Otterness Appendix C	✧ Statement of the Honorable Sam Gejdenson
Robert Fromer Appendix D	✧ Testimony Before Defense Conversion Commission
Eleanor M. LeCain Appendix E	✧ Testimony
Diane M. Disney Appendix F	✧ Testimony of Bruce G. Sundlun, Governor, State of Rhode Island and Providence Plantations, to Commission, September 17, 1992 ✧ Testimony of Diane M. Disney Ph.D., "Rhode Island's Dependence on Defense Spending"
Ralph L. Klein Appendix G	✧ Testimony ✧ Letter dated September 14, 1992 ✧ Resume of Ralph Klein
Janet D. Pierce Appendix H	✧ Statement
Harold Payson III Appendix I	✧ Testimony ✧ Appendix 1 "Defense Conversion Assistance Suggestions" ✧ Appendix 2 "Two Critical Barriers Hampering Maine's Defense Worker Adjustment Assistance Program" ✧ An Analysis of Maine's Defense Dependency: Interim Report of the Governor's Task Force on Defense and the Maine

	Economy, Richard H. Silkman, Chair (March 9, 1992) ✧ Markusen, Ann, "Department of the Peace Dividend," New York Times, May 18, 1992
Gene Gitelson Appendix J	✧ Letter from Gene Gitleson dated August 21, 1992 ✧ "We Believe in Veterans" Brochure ✧ Veterans Leadership Program Information packet
Stephen White	No written material provided
John B. Caron Appendix K	✧ Statement of John B. Caron, Business Executives for National Security ✧ Letter dated September 24, 1992, from John B. Caron correcting written statement
Joseph J. McGee Appendix L	✧ Statement
Mel Olsson Appendix M	✧ Statement of Mel Olsson, President, Local 571 of the United Autoworkers International Union on the Subject of the Economic Effects of Cuts in Defense Spending
Kenneth De La Cruz	No written material provided
Peter G. Meade Appendix N	✧ Testimony of Peter G. Meade, President, The New England Council, Inc. ✧ Letter from John R. Ryte dated September 15, 1992 ✧ Biography of Peter Meade
Louis C. Tedeschi Appendix O	✧ From Defense Specialization to Diversification Statement of Louis C. Tedeschi, President, Defense Diversification Strategies, Inc. ✧ Weisman, Robert, "Diversification inescapable for defense firms," The Hartford Courant, August 22, 1992
Peter J. LaPlaca Appendix P	✧ Needs for Defense Diversification Statement of Peter J. LaPlaca, Ph.D., School of Business, University of Connecticut and Vice President, Defense Diversification Strategies, Inc.

Kenneth A. Wexler Appendix Q	✧ Connecticut's Defense Diversification Program: A Working Prototype for Other States, Statement of Kenneth A Wexler President of New Business Search & Development Int'l Corp. and Vice President, Defense Diversification Strategies, Inc. ✧ Defense Diversification Strategies, Inc., Helping Defense Contractors Adapt to Commercial Market Opportunities ✧ Biographies of Ken Wexler, Louis C. Tedeschi and Peter J. LaPlaca ✧ Letter from Ken Wexler dated August 28, 1992 ✧ Defense Diversification Strategies, Inc. brochure
Brian Beaudin	No written material provided
Joanne Sheehan Appendix R	✧ Testimony Presented to the Defense Conversion Commission by Joanne Sheehan Community Coalition For Economic Conversion
Fran Boulay Appendix S	✧ Testimony on Economic Conversion on behalf of Bishop Daniel Patrick Reilly, Diocese of Norwich
Patricia Wass Appendix T	✧ Testimony ✧ Biography of Patricia Wass ✧ Connecticut Sane/Freeze information packet includes numerous brochures
Andrew D. Romegialli Appendix U	✧ Testimony by Andrew D. Romegialli Directing Labor Representative District 91 International Association of Machinist and Aerospace Workers
Rev. Robert E. Taylor Appendix V	✧ Statement
Thomas G. Moukawsher Appendix W	✧ Statement of Hon. Thomas G. Moukawsher, Connecticut State Representative for the 40th District, Before the Defense Conversion Commission
Elyse Cann Appendix X	✧ Testimony ✧ Biography of Elyse Cann

William D. Moore Appendix Y	✧ Statement by William D. Moore, President, Chamber of Commerce of Southeastern Connecticut
Kenneth F. Payne Appendix Z	✧ Statement of United States Senator Claiborne Pell ✧ Biography of Kenneth Payne
Nancy Langrall Appendix AA	✧ Statement of the Honorable Jack Reed
Barnaby W. Horton Appendix BB	✧ Statement of Melodie Peters for Senator John B. Larson, Senator Pro Tempore, Connecticut State Senate
Ronald F. Petronella Appendix CC	✧ Written testimony of Labor Commissioner Ronald F. Petronella
Carl Rood	No written material provided
Ed Munster	No written material provided

GROTON PUBLIC HEARING
APPENDIX OF WRITTEN MATERIAL PRESENTED AT HEARING FOR THE RECORD

Domenick Bertelli
Appendix DD

- Letter from Domenick Bertelli, Conversion Information Center, dated September 14, 1992
- Transition and Conversion after the Cold War Submitted to the Domenick Bertelli, Conversion Information Center Defense Conversion Commission Council on Economic Priorities

Senator Chris Dodd
Appendix EE

- Statement of Senator Christopher J. Dodd

Molly McKay
Appendix FF

- Testimony to the Defense Conversion Commission from Molly McKay, Chair, Southeast Group of the Connecticut Chapter of the Sierra Club
- The Sierra Club/Connecticut Chapter Ecological Symposium "The.Environment, Energy & The Economy"

Mary B. Walton
Appendix GG

- Letter from Mary B. Walton dated September 17, 1992
- South-Eastern Connecticut Planning Agency Newsletter March-April 1973
- Haigh, Susan, "Regional selectmen give jetport cold shoulder," Norwich Bulletin, July 27, 1991
- Letter to Vincent Scarano, Chief, Planning/Programming Branch Airports Division, Federal Aviation Administration from Richard B. Erickson, Executive Director, Southeastern Connecticut Planning Agency, dated 13 July 1992
- Letter to Richard B. Erickson from Vincent Scarano dated July 17, 1992
- "Jetport: 'nightmarish proposal that may take years'" Mary Walton, Norwich Bulletin, August 16, 1992

GROTON PUBLIC HEARING
APPENDIX OF MAILED-IN MATERIAL

Anne L. Pierce
Appendix HH

- ✧ Letter from Anne L. Pierce, Director, Connecticut Space Grant Consortium, dated August 3, 1992
- ✧ Enhancing Aerospace Manufacturing Leadership: A Partnership for the New Economy paper

Maurice R. Scully
Appendix II

- ✧ Letter from Maurice R. Scully, Executive Director, Connecticut Municipal Electric Energy Cooperative, dated September 4, 1992
- ✧ Written Statement of Connecticut Municipal Electric Energy Cooperative

Seymour Melman
Appendix JJ

- ✧ Letter from Seymour Melman dated September 15, 1992. Letter includes the following attachments: 1) New York Times "Shaping a Civilian Economy," February 27, 1992; 2) "Swords into Plowshares: Converting from Military to Civilian Production," Technology Review, January 1986; 3) Summary of Defense Economic Adjustment Act (HR 441); 4) Full text of Defense Economic Adjustment Act (HR 441); 5) Criteria for Economic Conversion Legislation.

Clifford K. Neal
Appendix KK

- ✧ Letter from Clifford K. Neal dated September 17, 1992
- ✧ Written Testimony of Clifford K. Neal

Mr. Neal also submitted two extensive enclosures with his letter and testimony.

- ✧ "Synopsis of a Proposal for a Regional Economic Development Strategy Submitted to the Southeastern Connecticut Planning Agency and the Southeastern Connecticut Economic Development Coalition"
- ✧ "Community Government Business 1990-2000 Connecticut's Decade"

Steven P. Kurtz
Appendix LL

- ✧ Letter from Steven P. Kurtz, Philadelphia City Representative and Director of Commerce, dated September 25, 1992
- ✧ The Economic Impact of Closure At the Philadelphia Naval Complex. Testimony of The City Of Philadelphia Before The Defense Conversion Commission

STATEMENT OF

DAVID G. ASSARD
PRESIDENT
TEXTRON LYCOMING TURBINE ENGINE DIVISION

BEFORE THE

DEFENSE CONVERSION COMMISSION
GROTON, CONNECTICUT

SEPTEMBER 17, 1992

Summary of the Statement of
David G. Assard Before the
Defense Conversion Commission

The Textron Lycoming-operated Stratford Army Engine Plant (SAEP) is a Government-Owned, Contractor-Operated facility located in Stratford CT, employing over 3300 people. We support a jobs base of over 24,000 and represent a combined U.S.Army/ Textron corporation investment of over $444 million.

SAEP has a capacity for over 1,200,000 standard hours, with a manufacturing forecast for 1993 of only 279,000 standard hours. As a challenge, Textron Lycoming has initiated "right-sizing" to reduce the capacity by 50% and is actively seeking plant loading opportunities to increase the military base such as:

-- Overhaul;
-- FMS production;
-- Selective upgrading (Technology insertion); and
-- Return of spares breakout.

Concurrently, we are developing commercial opportunities to expand our commercial base such as:

-- Factory re-load of commercial breakout components;
-- Establish mentor-protege relations with vendors;
-- Joint venture programs with other engine manufacturers, including Rolls Royce and General Electric.

While these reflect the active initiatives undertaken by Textron Lycoming to fill a right-sized capacity, there are several recommendations for action that would help SAEP and the defense industry as a whole adjust to the changing environment:

- Change the public law regarding DOD depot work competition.

- Encourage U.S. Army to establish a balance of work between their depot system and industry.

- Establish a study group to identify manufacturing opportunities for the SAEP capacity to support other existing government requirements.

- Establish a formal government facility to re-train the unemployed skilled and unskilled laborers for opportunities to gain new employment.

Statement of
David G. Assard

Mr. Chairman and members of the Defense Conversion Commission, I am David Assard, President of Textron Lycoming located in the Stratford Army Engine Plant in Stratford, CT. It is a pleasure to testify before this distinguished Commission. I would like to discuss with you the status of the Stratford Army Engine Plant (SAEP), and alternatives to keep the business base and employment level stabilized. The Stratford Plant is a Government-Owned, Contractor Operated or GOCO facility laid out to manufacture gas turbines for both military and commercial use. It is located on 77 acres along the Housatonic River in Stratford, Connecticut. This manufacturing complex has 1.5 million square feet of manufacturing floor space as well as 35 engine test cells which provide the capability for full engine testing of turboshaft, turboprop, turbofan and industrial turbine engines. We, like other full-service suppliers, have internal capabilities which would be difficult, if not impossible, to duplicate in an efficient manner under one roof quickly, and they range from technical design, development and test to specific labor skills such as spin lathe operators, fusion welders, gear cutters, flame spray operators, etc.

The Stratford Army Engine Plant (SAEP) can be considered a national asset that has had a long history in support of the aviation industry. The original facility was built by Igor Sikorsky in 1929 and was used to produce his flying boats or seaplanes as well as to develop the first experimental helicopter that was actually flown on the facility grounds in the late 1930's. During World War II the facility was the primary manufacturer of the Corsair Navy fighter plane and produced 4,120 planes.

The Air Force took over the plant in 1951 and it became a GOCO facility to manufacture aircraft engines during both the Korean and Vietnam wars. The first gas turbine engines were developed and produced at the facility by Lycoming in the 1950's and used in numerous helicopter applications. Development of engines for commercial turbofan applications, amphibious hovercraft and vehicular turbine engines followed in the 1960's. Gas turbine engine production for the first commercially-powered hovercraft in the U.S. began at the facility in the early 1970's.

The Stratford Army Engine Plant (SAEP) was transferred from U.S. Air Force to U.S. Army cognizance in 1976 at a time when the use of a turbine engine in the new M1 Tank was under consideration. Once the selection was made, both the Army and Lycoming recognized that the facility had significantly

deteriorated due to lack of government funding support. Most of the machines were old and in poor condition, and manufacturing operations were 1950's job shop vintage. In order to support the major manufacturing changes that were necessary to produce the tank engines required, it was recognized that a significant undertaking was required. Both the Army and Lycoming worked together and jointly invested in the facility throughout the 1980's to modernize it under the DOD Industrial Modernization Incentive Program (IMIP). This cooperative effort partnership resulted in a modern, totally integrated factory capable of producing 3,000 turbine engines per year. The total integration included all aspects of manufacturing operations, assembly and test, information support systems, manufacturing equipment, material handling and employee training. The Government investment during the period 1977-1992 was $278.9 million and the Lycoming investment was $165.2 million. We are responsible for this combined investment of over $444 million, and for the employment internally and from suppliers of over 24,000 people. Our challenge is to take a plant currently sized for a capacity of 180 tank engines per month and re-size that to 90 tank engines per month.

Textron Lycoming currently employs 3800 direct and indirect personnel supporting SAEP. The vendor base and additional jobs supported are depicted in the following chart.

• At SAEP	3,800
• 200 Connecticut Vendors	2,800
• 550 Out of State Vendors	5,900
• Additional Jobs Supported	12,000
TOTAL	24,500

1992 DATA

The standard hours produced in FY'92 are forecast to be in the range of 407,000 standard hours and decline to approximately 279,000 standard hours in 1993. The decline is a direct reflection of the reduced tank engine production rate. SAEP produces only new tank engines -- no overhaul. Additional military products include limited production of new Army Chinook helicopter engines (T55's) and Navy Air Cushion Vehicle engines (TF-40's). A significant fact is that during Desert Storm, 64%

of the Army's gas turbines were originally produced by SAEP. Our commercial base, representing 15% of standard hours produced, is the LF500 series turbofan and LTS-101 turboshaft.

The commercial product manufacturing uses some of the Army tooling; however, fair and equitable rent is paid for that use. In return, the commercial product absorbs over 30% of the SAEP fixed overhead costs that are not passed back to the Army. This allows the Army product to remain affordable. This is the reason why it is absolutely critical to retain a competitive commercial product.

As the military orders decrease in a fixed capacity plant, there are two options: 1) pass the unit cost increases directly back to the Army; or, 2) force the additional unabsorbed overhead onto the commercial product. As the latter occurs, the commercial base is no longer competitive. In the former, the primary customer can no longer afford the units as either original equipment or spares in order to sustain his requisite level of readiness. Neither option is acceptable; therefore, a smaller capacity facility right-sized for economic production rates must be the end result.

As a GOCO and an integrel part of the U.S. Army internal defense industrial base, the business base is directly tied to the DOD procurement level of either existing or new product lines. While the commercial business is stable, it contributes only 15% of the standard hours manufactured at the SAEP. With the existing 4-year contract of new tank engine production ending at the end of CY'94, there are no other tank engines on order. Without intervention, the business base will be reduced to production of other military engines and commercial engines, approximately one-third the number of standard hours we produce in CY'92.

First, the issue of conversion needs to be addressed as it pertains to our product. By definition, the converted product must be related to the product previously in production. From outward appearances, the tank engine resembles a commercial gas turbine, however, there are only limited similarities to commercial variants in production. The tank engine is a stand-alone military vehicular gas turbine in its own niche of size, horsepower and capability. Therefore, only a few components could be retained in a commercial or other military sector, and the tank engine's unique vendor base and manufacturing processes with related skills, would not be there to be re-converted or reconstituted. Regarding our aviation engines, there is a ready application, however, it requires entry into a commercial market that we have already either captured or is being filled by our competition. Due to laws of physics and aerodynamics, one size

gas turbine cannot meet all requirements, and since the investment is too great to cover the total spectrum, each gas turbine manufacturer has selected niches within which they have selected to compete. Our niche is full, and the world economy has declared an overcapacity in that niche; thus what few opportunities arise are heavily competed. While conversion for our engine manufactured in a GOCO is a noble challenge, unless the fixed military overhead is absorbed by the military, our commercial engine will not be competitive, and no matter how profitable, it would be impossible to carry the military surge capacity.

However, a machine tool capable of making gears, or shafts, could very well be loaded with other similar components, even though they are not for Lycoming gas turbine products. We are looking at the automotive and heavy construction machinery industries. This would insure employment and absorption of fixed overhead. Textron Lycoming has active, ongoing efforts within the state of Connecticut and throughout the world to research new opportunities.

Excess plant capacity availability after our right-sizing (see below) would be readily available for use by our DOD/commercial vendor base or by a totally independent non-related manufacturing base. A review of the unused manufacturing capabilities within SAEP (test cells, laboratories, machine tooling, etc.) after a right-sizing indicate that with a relaxation of restrictions on commercial use of government tooling, the capacity available would easily support numerous vendors and subcontractors. Theoretically, employment levels would be positively impacted, with minimum re-training required.

Accepting the realization of the defense budget and world economy, and subsequently our business base, Textron Lycoming has begun a down-sizing study of the SAEP to be completed in early 1993, with a follow-on request to the U. S. Army to begin the physical restructuring of the plant no later than the end of the 1993 first half.

The intention of Textron Lycoming is to right-size the SAEP to permit the capacity to surge to 90 tank engine production units a month (U.S. Army requirements, see below) and to produce our other military and commercial engines. To support a military plant at that size, it will be reduced from a total capacity of 1,200,000 standard hours for all engines to 720,000 standard hours for all engines. The 720,000 standard hour plant must be optimally operated at 300,000 standard hours in order for the plant overheads to be absorbed and still produce an economically competitive commercial product. Should the 300,000 standard hours not be met, the commercial product could not be produced

competitively and would have to be moved elsewhere or sold. That would pass the total plant overhead burden onto the remaining military products, making them also unaffordable to the military. That option is seemingly unacceptable, and with subsequent shutdown of the SAEP, surge for the tank engine and all support for the fielded tank engines and other fielded military engines would be lost.

Presently, SAEP is directed by the U.S. Army Tank & Automotive Command to retain the capacity to surge up to 90 new tank engines per month. According to SAEP estimates, it is a sustaining rate of 17 new production tank engines per month that ensures retention of each of the manufacturing processes required, and the minimum number of skilled employees capable of operating those processes. This minimum technical rate would provide 82,000 standard hours of work as a base to plant loading, towards the required 120,000 standard hours to operate the right-sized tank engine production line with SAEP at an economical rate.

The tank engine surge capacity requirement should be satisfied by providing orders for an equivalent of 300 tank engines to SAEP which at least 200 (17/mo) must be new production. The remainder may be engine equivalents or overhaul of tank engines, performance improvement of tank engines or tank engine components. The 300 tank engines/equivalents will produce 120,000 standard hours per year. This is what is necessary to ensure preservation of the manufacturing processes and manufacturing skills that will allow a surge to 1080 per year when required.

The harsh realism is that the converse of sustaining a surge capability is cold iron. Optimistic analysis of delivery of the first tank engine from a cold iron/zero vendor base is 48 months. With the absence of surge and with the DOD/U.S. Army decision to not pursue the next generation Block III Main Battle Tank, it is clear that whatever conflict arises within the next five years (60 months reconstitution of M1A2) will be addressed with the existing inventory without the capability to modernize with the state-of-the-art technology.

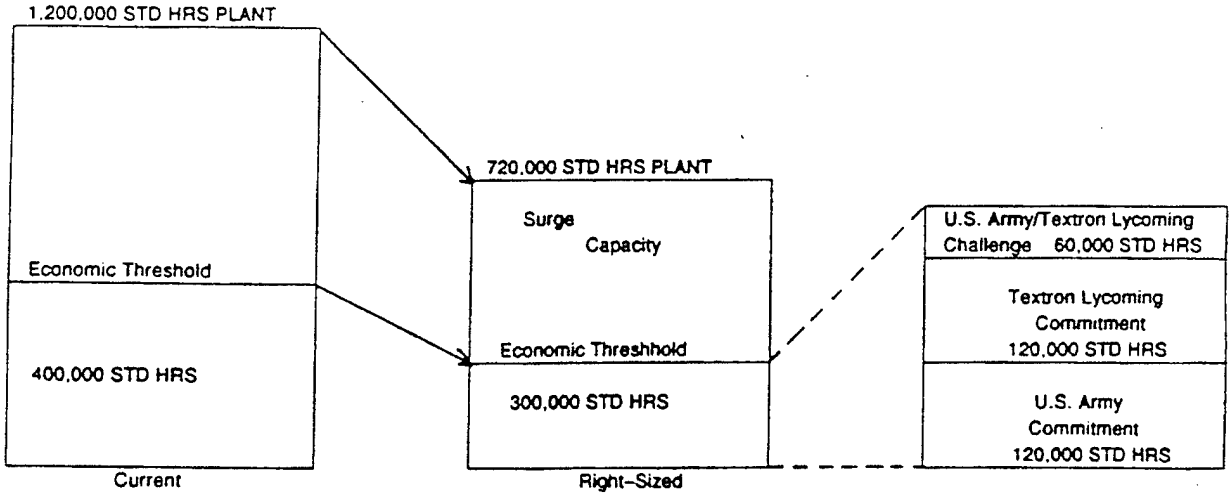
The Textron Lycoming business base other than the tank engine will contribute 120,000 standard hours of work each year to SAEP, assuming the U.S. Army minimum of 120,000 standard hours is first available to build upon. With the U.S. Army and Textron Lycoming agreeing to contribute an additional 60,000 standard hours, the right-sized factory with 300,000 standard hours will assure an affordable military product. The additional 60,000 standard hours would be made up of new commercial opportunities, breakback of spares of our mature military aviation engines and

new products representing result of active conversion efforts. The right-sized factory would be depicted as follows:

STRATFORD ARMY ENGINE PLANT

Right-Sizing

Surge Capacity



At this point I'd like to address the people aspect of Textron Lycoming and SAEP. Listed below are several of the many critical labor skills we have assembled within the 3800 employees at SAEP in the manufacturing of gas turbines.

GAS TURBINE ENGINE
CRITICAL LABOR SKILLS

Spin Lathe Operator	Flame Spray Operator
Fusion Welder (Material Specific)	Radiology Technician
Gear Cutter	Electron Beam Welder
	Laser Operator

This is to illustrate that along with the combined government/Textron investment of $444.1 million to modernize SAEP, there is another asset in the form of skilled labor that once lost, is irreplaceable.

I would now like to discuss several alternatives to load the excess surge capacity to an economical factory rate.

A) Overhaul

SAEP overhaul of fielded tank engines allows Original Equipment Manufacturer-quality input resulting in a delivered product that has demonstrated mean time between engine removal of twice that of the Army depot system overhauled tank engine. Resultant O&S cost savings are realized by the Army, and the overhaul work within the factory contributes support to sustaining the requisite fielded tank engine engineering and vendor quality support. In other words, a full service company.

To date, all efforts to have the tank engine returned to SAEP for overhaul have failed. Textron Lycoming has two unsolicited proposals to the U.S. Army for tank engine overhaul that remain unanswered. Several authorities have confided that public law must be changed for tank engine overhaul work to be competed with the private sector, even though the law currently reads that up to 40% of the depot work may be competed. Since the tank engine overhaul began eight years ago by the Army depot system, not one engine scheduled for overhaul has been competed. One alternative would be to direct in law that each of the end items be competed with the private sector to the 50% level rather than permitting several maintenance functions that are 100% contractor supported count towards the 60/40 split allowed of the depot work load. Proposed congressional bill language could read:

Depot Overhaul	
Sec. _____	The Secretary of the Army shall assure that at least 50% of the workload for overhaul and upgrade of major end items relating to Army armored vehicles is competitively awarded between the depots and the private sector. The workload share shall apply to each discreet major end item of equipment.

The current law is stringently upheld by the depot unions and depot congressional caucus whose efforts have resulted in a direct and severe impact to the residual of the former defense industrial base and the capability of the Department of Defense to preserve our nation's defense with state-of-the-art weapons systems.

B) FMS -- Projected customers for the M1A2 Main Battle Tank are as follows:

FOREIGN MILITARY SALES

Kuwait	--	760
Saudi	--	235
UAE	--	390
Sweden	--	200
		1585

NOTE: There is a 25% spare tank engine requirement over and above the tank requirements.

1585 + (x.25) = 1980 tank engines
1980 ÷ 300/year = 6.5 years
1980 ÷ 200/year = 10 years

However, none are on contract. FMS is unpredictable in timing of production orders, and even though once on contract, historically unstable.

The total number of tank engine FMS sales anticipated optimally could provide about seven years of stable tank engine production with surge capability, quality and engineering support to the U.S. Army at no cost. However, at a rate of 200 new tank engines per year (technical sustaining rate), the long term stability of the production base and surge capability could be about 10 years, ample time to develop the next generation tank propulsion system. The stability of the FMS base would also positively impact the cost of SAEP tank engine overhaul and upgrade of fielded tank engines.

C) Technology Insertion and Selective Upgrading

Textron Lycoming does have several performance enhancement programs available not only to the tank engine, but also for the Army aviation engines and Navy air cushion vehicle engines. In

each case, the program represents state-of-the-art technology that would improve performance and reliability while reducing customer operating costs.

Since the tank engine is our major program, I'd like to address some of the background and benefits of a tank engine performance enhancement program. There are about 8,000 M1 chassis main battle tanks in service today, all powered by the same tank engine designed in the 1970's. The original M1 delivered weighed 60 tons, and the latest version, the M1A2, weighs 70 tons. There have been no performance improvements to the engine since production deliveries began in the early 1980's. Since that time, the original M1 performance has been allowed to degrade by 30% due to weight and nuclear, biological and chemical modifications. Consequently, the M1A2 does meet performance requirements with a new or remanufactured engine, but does not meet performance requirements with an overhauled engine. The tank engine performance enhancement program restores the M1A2 performance margin and corrects acknowledged Desert Storm deficiencies (air filtration, under armor APU) with an 18% improvement in fuel efficiency.

There could not be a more clear case made for the rationale of technology insertion retaining performance specification of the M1A2 while the weight requirement increased 8.5 tons. With the M1-series being upgraded to the M1A2 by the U.S. Army, it would be a multi-faceted solution to the SAEP loading problem to have SAEP do the tank engine overhaul of those M1-series Main Battle Tank's undergoing conversion. The opportunity is there to upgrade those same engines with the performance enhancement program noted above and return them to the Army with an Original Equipment Manufacturer warranty. The SAEP would warranty the engines after overhaul and upgrade due to our ability to manufacture many of the tank engine components internally and control the quality of both internal and vendor base parts.

The scope of the program could easily be expanded to those fielded M1/M1A1's not presently undergoing conversion. The O&S cost savings could be realized immediately by the operational units in the field.

D) Breakout -- Return of breakout of spares to Original Equipment Manufacturer either by component, cluster of parts or sub-assembly/assemblies is a logical method of filling our production capacity. This would assure Original Equipment Manufacturer quality control at all levels. Sub-assemblies would be provided to customer with warranty. Savings to the customer are in the form of reduction of assembly time by fielded Army units, quality control over vendor products, design improvements easily included (technology insertion), fielded product

engineering support, and an Original Equipment Manufacturer warranty.

Briefly, I would like to summarize the positive steps we at Textron Lycoming are taking to address the market and capacity issues:

- Right-sizing to economic level. (Working with TACOM)
- Factory reload -- return of components previously broken out on a make/buy decision to our vendor base.
- Establish mentor-protege relation with vendor to insure reliable vendor quality and stability. (Under way)
- Signed joint venture with Rolls Royce for commercial engine (TAY-670 - stage III capable engine). (Awaiting launch customer)
- One of two teams in advanced Research & Development program -- Joint Turbine Advanced Gas Generator (JTAGG)
- Joint agreement with General Electric to develop the next generation Main Battle Tank gas turbine (LV-100).
- Textron visits to Kuwait/UAE in support of Foreign Military Sales.
- Submitted unsolicited proposals to USAREUR for contractor logistics support, including overhaul of all tank engines in Europe. (Awaiting response)
- Submitted unsolicited proposal to U.S. Army Tank and Automotive Command for 1200 tank engines at Anniston returned from Operation Desert Storm. (Awaiting response)
- Submitted unsolicited proposal to Ft. Knox to upgrade tank engines with the performance recovery program and to correct deficiencies discovered during Desert Storm. (Not funded)

Taking into consideration the art of the possible, I have the following recommendations:

- First, establish a formal government facility in the area to assist those skilled and unskilled laborers to re-train and learn new processes to obtain new employment.
- Second, use SAEP excess capacity to physically co-locate Textron Lycoming vendors under the same roof. And taken one step further -- offer free use of the

space to other vendors of non-related products. Develop a plan with these vendors to share usage of test cells, laboratories and other such unique capabilities.

- Third, ask for Department of Defense support to change the laws governing depot work competition. The present statutes are seriously detrimental to preservation of the industrial base capable of performing defense product Original Equipment Manufacturer functions.

- Fourth, encourage and support commercial use of government-owned tooling.

- Fifth, encourage the U.S. Army to sign up to a commitment of standard hours on a yearly basis and to establish a balance between Army depot and the full service suppliers.

- And last, establish a study group to look at the SAEP manufacturing capabilities and work with us to identify other opportunities in order to stabilize our employment base.

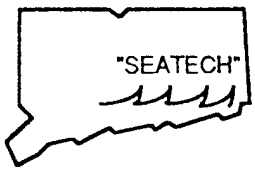
We are attempting to fill that capacity with other commercial needs, but will require some supplemental assistance from the Army. That supplemental assistance could come about by establishing a reasonable balance between Government depots and the industrial base. Industry, in general, could benefit from a relationship with the Defense Department based on the following criteria: A balance between the depot and the Original Equipment Manufacturer, best value service of spare parts, overhaul, repair of equipment, and engine performance upgrades. Specifically, for Textron Lycoming, any potential commercial deficiencies in hours will be circumvented now by our actions that I have outlined above, however, those are all predicated on a stable warm military base.

Before I close, I would first like to bring the Commission's attention to our critical situation. In July 1993, in the absence of tank engine orders for 1995 and beyond from either the U.S. Army or Foreign Military Sales, I will be forced to begin the shutdown of the tank engine vendor base. The vendor long-lead time for some critical parts is approximately 18 months. Accordingly, the long lead manufacturing process will be shut down. On the positive side, we do have an on-going dialogue with the U.S. Army, and are actively seeking a solution to that problem; however, your assistance in the form of advice based on your findings to date would be greatly appreciated.

In conclusion, I want you to know we are actively looking for conversion opportunities in the automotive and heavy construction machinery markets. We are vigorously attacking the international market for new sales opportunities of existing products and new markets. We are taking strong measures to improve efficiencies. We are aggressively pursuing right-sizing of the SAEP. We are actively working with the Connecticut Commission on Business Opportunities to find new manufacturing opportunities. And, we are here in front of the Commission today, presenting our situation, suggesting solutions and soliciting your advice. Thank you for your attention.

2.

Southeastern Area Technology Development Center



Nicholas Kepple, *Chairman* Michael G. Franklin, *Executive Dir*

WRITTEN STATEMENT OF

MICHAEL G. FRANKLIN, EXECUTIVE DIRECTOR OF

SOUTHEAST AREA TECHNOLOGY DEVELOPMENT CENTER, INC.

15 SEPTEMBER 1992

U.S. DEPARTMENT OF DEFENSE

DEFENSE CONVERSION COMMISSION

PUBLIC HEARING, GROTON. CT

SEPTEMBER 17, 1992

INTRODUCTION

I appreciate the opportunity to present to you Mr. Chairman and the Committee my thoughts and ideas relative to diversification. I am representing myself and the Southeast Area Technology and Development Center (SEATECH).

A little background on myself and how I became Executive Director of SEATECH should be helpful in understanding my concerns and ideas.

BACKGROUND

I am an individual and was a private business owner that was directly affected by the defense cut backs in our region. Four years ago I had the most failsafe business plan of any builder/developer in this region. At peak times I employed 35 persons directly and kept busy another 150 persons through subcontracting. My business focussed on high quality - expensive jobs. In the late 80's I saw the writing on the wall and started refocusing my business towards affordable housing. An extreme amount of time and money was invested in this effort and the results of this effort were the following.

1. 300 unit family housing $25 million contract with the NAVY

2. 90 unit affordable housing $8 million contract with the state through a local not-for-profit

UNIVERSITY OF CONNECTICUT 1084 SHENNECOSSETT ROAD GROTON, CT 06340 (203) 449-8777

3. 50 unit $4.2 million National Demonstration Project endorsed by Fannie Mae, FHA and National Home Builders. This demonstration project was to display a first time creative financing concept designed by myself that achieved affordablity for first time buyers.

All three projects were fully designed, approved, financed and ready to build.

Project # 1

After three and a half years of R & D and design and several hundred thousand dollars invested the Navy pulled the rug out from under this project two days prior to a deadline that would have enabled this project to go forward.

Project # 2

After 4 years of much the same and also several hundred thousand dollars invested the state lacking confidence in our local economy did the same.

Project # 3

Since all of my resources were consumed in the above projects I no longer had the reserve funds to pursue the last project mentioned which had national implications. Not only did I not have funds to pursue my final project but this lack of funds did not allow me to pursue any recourse against the Navy or the State in which I feel I was seriously aggrieved. Due to the above events I was forced into bankruptcy and have since lost everything.

The result of these events was my application for the Executive Director position of SEATECH. As of April of this year I have been serving the region on a pro-active basis in the diversification effort as SEATECH's Executive Director. SEATECH is the "Regional" Small Business Incubator and State of Connecticut's Business Outreach Center, background information on SEATECH is attached. I am now in a position in which I may help correct the mechanics of this eroded job market which is staring us right in the face in critical proportions.

PROGRAMS AND POLICY

Two points that I would like to stress with the Committee having intimate experience in creating jobs and what it is like to be put out of business by circumstances completely out of my control are;

We have organizations, infrastructure, highly developed technologies and skilled work force in place. These should be the focuses and the place for investment in order to develop the jobs of the future. One program comes to mind that should be expanded upon that would utilize existing infrastructure that exists throughout the United States. This program is the Department of Defense (DOD),

Procurement Technical Assistance Cooperative Agreement Program. Originally this program was designed and legislated when DOD was expanding. The program design was to assist local communities in technical assistance so that they may take advantage of this expanding DOD contracting. This program is presently funded for around $9 million per year. This $9 million supports 93 centers across the nation. The legislation in now being revised to increase funding and change the focus of the program. When we are talking billions of dollars for the diversification effort to increase funding for an already existing program by mere millions makes more sense. We all know in our economic development efforts it is sure easier to help an existing company grow than to start a new venture. Not only should the funding be increased to the requested $25 million but the legislation should include DOD, NON-DOD, state, local and international procurements. Bearing in mind that the infrastructure of the future will be in Systems, information, data and the speed in which we deliver this data to our companies. The speed in which we deliver this information will give us(US) the competitive advantage. The new markets are global and we need to put in motion the infrastructure that will enable the US to take advantage of these markets. We have the technologies to compete on global terms and these technologies need to be transferred from defense to commercial applications along with the proper and expeditious information of where the markets are.

The other item that should be seriously considered and rethought is the manner in which the Defense Diversifications funds are allocated. The lion's share of the funds in the past have been allocated towards the retraining of the dislocated workers. As far as I am concerned this thought process is ass backwards. In order to create jobs you have to put the mechanics of these efforts in place correctly before you can expect results. With a recessionary economy what jobs are these retrained workers filling??? In order for these diversification funds to have any effect jobs must be created. You need jobs prior to any retraining. The Federal Government should seriously consider a strong focus towards Public-Private Partnerships. The solutions to our economic woes are not going to come from Capital Hill, as much as the politicians will take credit for it when it happens. The knowledge, experience, new technologies, new products and business management is already developed and sophisticated enough to compete in global markets and we need to come up with programs that will support entrepreneurial efforts and utilize these developed expertise.

Once again I thank the Commission for this opportunity and I welcome at this time any Questions.

BACKGROUND

SEATECH was organized as a direct result of a Diversification Conference held in 1986 at the Ramada Inn located in Mystic, CT. The conference, attended by over 200 business and political leaders from Southeastern, CT, stressed the potential for economic disaster in the region, if defense spending was drastically reduced. It was recognized early on that an organization dedicated to helping existing business in the region expand and diversify was needed.

A location was sought to establish an incubator and small business center in the Southeast region of the state. The University of Connecticut offered a ten thousand square foot building on their Groton campus to SEATECH, to help them establish this Center. The SEATECH Board then applied to the United States Department of Commerce's Economic Development Administration for a grant to renovate the run down physical plant building. This application was successful and SEATECH was awarded an EDA grant in the amount of $592,000. These funds were used to renovate the physical plant building. It is now an up to date modern facility offering an exceptional environment to those start up and diversifying businesses. During this process SEATECH applied for a Business Outreach Center grant from the State of Connecticut Department of Economic Development, this grant was also successful.

The construction of the building is now complete, the Business Outreach Center is operating and SEATECH offers a very unique opportunity for the small business community of Southeastern Connecticut. The Center offers new and diversifying business the opportunity to start up in a new facility with an additional pool of resources and expert advice at below market rates. Additionally, the tenants are able to draw on the synergy between the incubator and the UConn/Avery Point Campus. SEATECH, a member of the National Business Incubator Association, has nearly 7,000 square feet of office and light manufacturing space for rent. Presently three companies are operating at the Center with three more under application for the space. The interest level has gained momentum and it is projected that the space will be fully occupied in early fall of 1992. This space is limited to new start ups or existing business desiring to diversity away from defense.

The other equally important aspect of SEATECH is that of a State of Connecticut Business Outreach Center. The State of Connecticut awarded a grant in the amount of $139,000 over five years and these funds assist on administrative expenses on the implementation of the Business Outreach Program. The Board of SEATECH is committed to drawing on

the experience and expertise of the Directors to insure the success of the incubator and thus the businesses who seek assistance in conjunction with the network of state and national contracts. The Outreach Center will, on its own and in conjunction with the area SBDC, the state DISN network, UConn and local resources help the local businesses in all aspects of business consulting discussed herein. The above overview is consistent with the Strategic plan formulated by the Corporation for Regional Economic Development (CRED) and recognized and endorsed by the state DED.

SAM GEJDENSON
2D DISTRICT
CONNECTICUT

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FOREIGN AFFAIRS
CHAIRMAN
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE

COMMITTEE ON INTERIOR
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STATEMENT OF THE HONORABLE SAM GEJDENSON

DEFENSE CONVERSION COMMISSION

PUBLIC HEARING, GROTON, CT

SEPTEMBER 17, 1992

Mr. Chairman and Members of the Commission. I appreciate this opportunity to submit this statement for the Groton, CT, public hearing. While I plan to personally appear before your esteemed Commission when you visit Washington, DC, I felt compelled to provide testimony for your visit to the Congressional District that I represent.

Without a doubt one of the most crucial issues facing our country today is: how do we maintain economic viability in the communities that designed and built the weapons that won the Cold War? Nationwide, since the middle of 1990, military contractor employment has declined by 225,000 jobs, 15% of the approximately 1.5 million jobs lost since this most recent recession began.

Our state picture has not been rosy either. According to a 1991 United States Department of Defense (DoD) study, out of the 15 most defense dependent states, Connecticut ranked fourth. A full 6.5% of the state's workforce is employed in defense or defense related industries. However, in terms of annual employment growth between 1986 and 1990, Connecticut ranked near last with only 0.4% growth. A New York Times article on this past Sunday, September 13, stated that Connecticut could be the state that is hit the hardest, losing 2.3% of the state's jobs between 1991 and 1997.

By DoD's own reckoning New London County's dependence on defense is so substantial as to rival any other defense oriented community in the nation. About 60% of the jobs in the area are estimated to be defense dependent, taking into account the multiplier impacts of secondary economic activities related to defense procurement, DoD research, and military personnel in the area. Without an aggressive strategy to counteract the projected downturn in defense activities, it is estimated that total employment in Southeastern Connecticut could decline by 14,030 jobs, a 9.5% decrease from 1990 levels. Obviously, such a precipitous decrease in employment profoundly impacts all sectors of the local economy.

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However, just as our nation will not turn its back on the communities in Florida, Louisiana, and Hawaii which have recently suffered the wrath of hurricanes, we can not and will not abandon the hard working men and women who are suffering the loss of jobs and homes from the devastation thrust upon them from cuts in the defense industry.

Since 1985, I have been striving to seek ways to diversify and strengthen our economic base. This community has been pro-active in developing initiatives, programs, organizations, and cooperative agreements designed to mobilize our highly trained and motivated workforce and to transform our technological resources into new business opportunities in the commercial sector.

In 1986, a highly diverse group of over 200 individuals attended a conference sponsored by my office and the Chamber of Commerce of Southeastern Connecticut to provoke discussion on the impact of defense spending and to formulate initiatives to diversify the local economy. 1986, you will recall, was at the height of defense spending providing virtual full employment in the region and unprecedented wealth. Southeastern Connecticut was booming! That a large representative sample of the community was concerned and interested in the issue of diversification was in itself astonishing. From this conference a representative, regional committee was formed under my sponsorship to pursue initiatives which would foster diversification. Existing resources were analyzed to determine what programs were available to assist communities should they be thrust into economic distress. Unfortunately, those programs were found wanting and inadequate because help was available only after a crisis had already occurred. Consequently, legislation was formulated, proposed, and passed in the intervening years, resulting in new programs at the state and federal levels which are designed to assist communities and individuals. These programs are important as a first step in recognizing that assistance is necessary, but it is clear to me that a far greater effort is necessary and warranted at the federal level.

For example, Southeastern Connecticut has already benefitted from approximately $10 million in federal funds from the fy'92 $200 million defense diversification funds allocated for economic development projects and worker retraining--the result of legislation I worked on for eighteen months to develop and get through Congress, despite opposition from the Administration. Since June of this year, it is estimated that 2,650 requests for JTPA services have been processed by the Southeastern Connecticut Private Industry Council, just to give you an idea of the magnitude of the problem at this time. Additionally, the State of Connecticut has declared this region a priority and has been assisting many programs with its $25 million statewide allocation for diversification efforts. However, these efforts only begin to address the unmet need.

At another level, this Diversification Committee took an active role in establishing a small business incubator and business outreach center to assist and nurture small business ventures. The United States Department of Commerce Economic Development Administration (EDA) allocated $592,000 and the State of Connecticut $139,000 in start-up funds for the Southeastern Area Technology Center, Inc. (SEATECH), which officially moved into newly renovated quarters on the Avery Point campus of the University of Connecticut in January of this year. Already, there are two businesses located in the incubator, and five others are in varying stages of applying for space. Two hundred and fifty inquiries have been fielded by SEATECH staff, 75% of them in the last five months, another indicator of the need for assistance.

Just as the legislative agenda has been an iterative process, the local agenda has followed a like course. Building on the success of the original diversification committee, in November of 1990 the Southeastern Connecticut Regional Planning Agency (SCRPA) and I brought together a cross section of private and public sector individuals to form the Southeastern Connecticut Economic Development Coalition. With a $90,000 grant from the Office of Economic Adjustment, United States Department of Defense (OEA), administered by the CT Department of Economic Development (DED), and $50,000 from the Southeastern Connecticut Regional Planning Agency, A.D. Little, a national consulting firm, was hired to assist the Coalition with the development of a strategic plan for diversification and economic development. The ultimate goal was to develop a plan with broad support and specific actions to mobilize local, state and federal resources to address short term and long term impacts of declining defense expenditures in Southeastern Connecticut. Organizationally, the process has already led to the creation of the Corporation for Regional Economic Development (CRED), Technology for Connecticut (TECHCONN), and a Regional Council of Government (COG). The Mystic Coast and Country Travel and Leisure Council, dedicated to increasing tourism in the region, has coordinated its efforts with the Coalition and now the Corporation. SEATECH and the Small Business Development Center also cooperate with the efforts of these newly formed regional entities. I and all of the many individuals who participated in this nearly two year process are committed to regional cooperation to address our current and future needs.

There are some encouraging initiatives from General Dynamics Electric Boat Division, Sonalyst, Analysis and Technology, and many other Navy and defense subcontractors. They are seeking ways to develop nondefense products from their advanced technologies. One roadblock has been strictures that the DoD places on its contractors and subcontractors regarding defense and nondefense work. Additionally, if technology transfer could be facilitated from defense work to the commercial sector, new product development could be further enhanced. I look forward

to working with your Commission and the Department of Defense on this important issue.

Other efforts such as the development of the State Pier have exciting ramifications for the regional economy. My amendment allowed the United States Navy to relinquish their lease on the property to allow the State to resume control. The CT Department of Transportation, Department of Economic Development, EDA, OEA, the City of New London, The Corporation for Regional Economic Development, SCRPA, my office and others are developing a long term plan for the facility and adjoining property. Since Connecticut is already the number one exporter on a per capita basis, enhancing export opportunities is a natural for this excellent deep-sea port.

I am proud of the leadership at the local and state level in addressing this issue and their accomplishments to date. However, at its heart the impact on local communities of reduced defense expenditures is a national issue and requires swift and decisive action. We must be creative, as well as intelligent, about how declining defense dollars are allocated and spent. We must also be willing to allocate the necessary funds to assist our communities, industries and workers as we make the transition to a broader and more diverse economy.

The major reason for the reduction in defense spending is the dissolution of the Soviet Union and the reunification of Germany. Therefore, why are we spending billions of dollars to maintain a presence in Europe to defend these wealthy, prosperous industrial nations from their newly democratized neighbors to the East? These dollars could be better spent on economic growth initiatives for the United States and programs to maintain our industrial base through diversification and conversion, through infrastructure improvements, and development of the technologies of the future.

I recently introduced legislation to require that, if the President cannot negotiate cost-sharing arrangements with NATO host nations, funds currently spent to maintain foreign bases would be redirected to provide aid to states and a renewed federal commitment to energy, transportation, and locally initiated economic development. Instead of paying basic operation and maintenance costs for United States bases in Europe, "The Industrial Reinvestment and Defense Diversification Act of 1992" would provide:

$ 15 Billion in aid to the states
$ 2 Billion for renewable energy research and development
$500 Million for energy conservation
$ 1 Billion for pollution control
$500 Million for historic preservation
$1.5 Billion for maglev/other high speed rail development
$ 4 Billion for mass transit
$ 1 Billion for community development grants

$ 1 Billion for Economic Development Agency grants
$ 1 Billion for job training (JTPA)
and create a $ 1 Billion export enhancement program.

This represents an investment of $28.5 Billion in our domestic economy, funds available from reductions in expenditures at overseas bases. However, this doesn't require that additional personnel be discharged into a recessionary economy; rather, they should be stationed at United States bases to infuse their paychecks into the local economies. One economist recently estimated that bringing home 300,000 troops, each with average earnings of $25,000/year, would inject $ 7 Billion in initial buying power into the economy.

Another bill that I have introduced, the "Defense Communities Job Training Act," would give workers access to JTPA services before they receive a pink slip. Presently, workers can qualify for counseling and retraining services only after they receive notification that they are going to be laid off. In most cases, this gives them a mere 60 days to be retrained and find a new job. This bill expands eligibility for job training and job-search counseling to all workers in areas affected by recent defense cutbacks to speed their re-entry into the workforce.

To better prepare the regional workforce, the University of Connecticut has been formulating a program to address the needs of workers at risk across the employment spectrum by providing education and training programs which would include: training programs for local municipal officials, contextually based workplace literacy training, a re-entry student program, a high intensity, weekend college for a Bachelor of General Studies degree program, and a weekend college Masters of Liberal Studies. Additionally, the University is seeking to create a Marine Biotechnology Laboratory at Avery Point with both training and business support functions to provide technically skilled personnel to become employable in the growing field of Marine Biotechnology and to stimulate a new Connecticut based industry that would serve as the focus for growth in this area. The University is a great resource for the region that has great potential to assist with economic development efforts in a myriad of ways. With financial assistance these innovative programs can become a reality.

This year's Defense Economic Adjustment Proposals are still being formulated. The House, Senate and Administration seem to agree that $ 1 Billion is the target number. However, common ground is still being sought on the specifics of the bill. Features that I believe are important include: a comprehensive assessment of the impact of defense reductions and the resulting funding needs, development of a strategy to target key industries and technologies for research and development, creation of export enhancement programs, an infusion of funds into infrastructure needs, aid for states and local communities, assistance for workers to prepare them before they are laid off

for the jobs of the future, and a mechanism for direct assistance to businesses and entrepreneurs to enable them to develop products and begin production, similar to programs administered by the State of Connecticut.

As you can surmise my efforts in support of diversification and conversion have spanned the last seven years resulting in programs to assist not only Southeastern Connecticut but other areas of the nation as well. Additionally, this community is now in agreement that a concerted effort including additional federal support to augment present local, state and federal aid will be necessary for us to remain economically viable. Efforts in the travel and leisure sector are already reaping benefits, but it is imperative that our manufacturing base also remain strong. I am optimistic because of our highly trained and motivated workforce. However, I do not see recovery precipitated by one silver bullet but by many efforts leading to a cumulative significant impact.

I look forward to speaking with you personally when I testify before the Commission on October 1, in Washington, DC. I'm certain that you will leave Southeastern Connecticut with significant and valuable input for your report which is due December 31, 1992. I hope new and innovative ideas emerge as a result of this collaboration.

281 Gardner Avenue, J4
New London, Connecticut 06320
September 17, 1992

Department of Defense
Defense Conversion Commission
1825 K Street NW, Suite 310
Washington, D. C. 20006

Re: TESTIMONY BEFORE DEFENSE CONVERSION COMMISSION

Dear Commissioners:

The citizens of this area welcome this commission and the opportunity to offer testimony concerning the government's role in the conversion to a non-defense oriented community. Your task is formidable and requires consideration of many competing interests.

Many businesses and industries affected by the conversion seek some form of assistance including direct and indirect governmental subsidization. Their classical and traditional pleas for economic advantage are legendary and commonplace. In framing my arguments, I paraphrase from Thomas Jefferson the immortal concept that the *least government is the best government*. The substantive issue is whether this Commission will formulate and plan the national conversion or merely provide the direction and framework for success.

The economic model used by the United States and most other nations of the world is growth, and the medium of exchange, nationally and internationally, for implementing the programs and policies of this worldwide standard is money. Although money comes in various shapes and forms, it is the common denominator of exchange for all goods and services and the current measure of wealth represented by the Gross National Product (GNP). Therefore, the exchange rate between monetary values of countries represents the relative wealth of nations. These statements beg the following profound questions: Where is our growth taking us, and what is its ultimate purpose? Is it growth for its own sake or to support human greed?

We have all heard of the golden rule: "He with the most gold rules." Well, the United States is no exception to this rule. With the greatest wealth amongst nations, economic policies of the United States ripple across the world and often substantively impact the policies of other countries. Hopefully this Commission will avoid Procrustean decisions with international impacts.

One of the primary parameters affecting conversion is economics.

Traditionally, financial costs have been synonymous with the economics of transformation. Internationally, the futuristic philosophy is that preventive or corrective environmental costs require factoring into the equations for life-cycle costs. Currently, Germany is converting to such an economic model. Analytical models exist for environmental/ecological costs based on damage assessment, and they are available from the National Oceanographic and Atmospheric Administration (NOAA). Environmental considerations are essential at this the planning stage for the coming changes. The adage, "Pay now or pay later" should guide the direction of holistic planning. I suspect that the National Environmental Policy Act (NEPA) may require the government to prepare an environmental impact statement for the planned diversification of regions.

One prime factor requiring consideration is the life-cycle energy expenditures for conversion. While the government can always print more money, energy resources are finite and exhaustible. Every living process and life-support system from the animate to the inanimate requires carbon and energy. An energy value can be associated with every tangible and intangible item in the world whether a raw substance or product. Though estimates of the Nation's energy resources are on the order of quadrillion's of BTU's, our principal energy resources (i.e., oil, coal, nuclear) are not renewable. Total energy consumption is the product of per capita energy consumption and population. Increasing one factor without decreasing the other results in growth economics; the steady increase in energy consumption. Sustainable economics would provide for a zero or less rate of increase in consumption.

It is of prime importance that governmental policies and decisions consider the minimization of energy consumption as a vehicle to extend the availability of national resources. To accomplish this goal, life-cycle energy expenditures should be given significant consideration and weight in assessing and evaluating options. This Commission should predicate its transformation modeling and planning on energy-based economics rather than the more traditional monetary-value system.

History has proven that laws of supply and demand best control the market place even when subjected to regulatory controls for public health, safety and welfare. Government manipulation of the market place has been an abysmal failure, time and time again. For the government to commercially discriminate by subsidies for diversification of select businesses will result in the enormous expenditure of finite energy resources. Without a focus and direction this expenditure is needlessly wasteful.

Given the above premises, what is the most effective approach for the Commission to efficiently produce the transformation? This question demands yet another question on the path to a solution. What is the one thing that no one can ever take away from a human being? My experience leads me to suggest the word "EDUCATION."

Planning requires data; this is not a profound nor a new concept. The Commission needs to collect forensic and meaningful data on the existing levels of skills and education for the business/commercial/industrial base. Then, the agency needs to assess the potential skills and education requirements for existing and future commerce in a sustainable economic environment. Thereafter, the government should provide incentives and direction towards satisfying the educational goals which foster the industries of conversion. The government should create and stimulate the climate to metamorphose the Nation's future. On no account should the government directly subsidize or socialize that which is within the capability of private industry.

Location, location, location is what the real estate industry always tells its clients. Similarly, the motto of this Commission and the Nation should be: education, education, education - first and foremost; we need to retrain America.

Very truly yours,

Robert Fromer

Robert Fromer

TESTIMONY

by Eleanor Mulloney LeCain
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DEFENSE CONVERSION COMMISSION
September 17, 1992
Groton, CT

EXECUTIVE SUMMARY

THESIS: Defense layoffs expose the severity of America's declining industrial competitiveness and put tens of thousands of people out of work. At the same time, the U.S. and the world experience mounting environmental problems. A happy solution to both problems could be addresed through a national policy to employ defense workers in environmental businesses, those companies which engage in environmental restoration and pollution prevention. Environmental business is one of the fastest growing sectors of the US and world economy.

MAJOR POINTS:

1. Environmental business is a wave of the future, and is already making its presence felt. There are already 70,000 companies in the environmental industry employing almost one million workers with sales of $130 billion.

2. Swords are already being turned to plowshares, and more can be done.

3. One major area for environmental business opportunities and jobs is the clean up of military sites.

4. There are many other environmental business opportunities.

5. The markets for environmental business are worldwide.

6. The federal government can take action to position the United States for the jobs of the future, including:
   - Support research and development in envirotech;
   - Assist companies in identifying and capturing world markets;
   - Provide loans and grants for business start-ups and conversion from weapons production to envirotech activities;
   - Develop export markets for environmental goods and services through traditional export programs and foreign aid programs for environmental cleanup; and
   - Enact legislation which encourages environmental businesses, including bills proposed by Senator Barbara Mikulski, and Congressmen Gerry Studds and Joseph Kennedy.

TESTIMONY

We are here today to discuss the impact of defense cuts on workers, and ways of assisting these dedicated people who need jobs. Defense layoffs expose the severity of America's declining industrial competitiveness and put tens of thousands of people out of work. At the same time, the U.S. and the world experience mounting environmental problems. A happy solution to both problems could be developing a national policy to employ defense workers in environmental businesses, those companies which engage in environmental restoration and pollution prevention.

My testimony focuses on what I believe to be the major source of jobs of the future - environmental business. Many of the workers currently employed in defense could find jobs in environmental business, one of the fastest growing sectors of the US and world economy. Workers and companies in the defense industry already have many of the skills needed to succeed in this growing field, thus shifting from military defense to environmental defense.

1. Environmental business is a wave of the future, and is already making its presence felt. I have been working closely with Donald Connors, Chair of the Environmental Business Council, who shares my understanding of the strength of this growing industry. Based in Boston, the Environmental Business Council is a trade association of businesses in the "Envirotech Industry".

with members throughout New England and growing. A report from the US Department of Commerce shows that last year there were already 70,000 companies in the environmental industry employing almost one million workers with sales of $130 billion.

2. Swords are already being turned to plowshares, and more can be done. A story from Burbank, California demonstrates the possibilities of shifting from military to environmental jobs. As you probably heard in your hearings out West, the Burbank Lockheed plant, closed as a result of military cutbacks, has recently reopened to build solar cars. A consortium of union, industry, university, and public officials known as "CALSTART" came together to help build an advanced transportation system. CALSTART plans to hire workers hurt by military layoffs. They will initially build solar cars, and down the road plan to build light rail and high speed trains.

Another example of turning swords to plowshares was announced just last week. Raytheon announced a joint venture to convert a former Slovakian tank factory into a firm to produce environmental cleanup equipment and road paving machinery.

Moreover, many of the researchers and scientists who have focused on the military are now free to focus on healing the planet. There are great opportunities in pure and applied research in science, engineering, technological development and

technology transfer.

The defense sector has employed hundreds of thousands of highly skilled workers whose analytic and manual talents are directly relevant for the production and problem-solving necessary to ensure an internationally competitive envirotech industry.

Some of these workers could, with little or no training, be placed in jobs in the private sector. But others could stay in military units which would have a new mission - environmental restoration. Many military personnel are highly trained, highly motivated, and highly disciplined. Instead of disbanding these cracker jack units, we could shift the mission to include environmental restoration. An expanded focus could, for example, give new meaning to "The Green Berets." We have already seen what some military units can do in disasters such as southern Florida. Many more such natural and manmade disasters will occur; we can self-consciously prepare military units for such service.

3. <u>One major area for environmental business opportunities and jobs is the clean up of military sites</u>, projected to cost hundreds of billions of dollars into the next century.

- For example, Hanford, Washington, currently employs 16,000 workers, more than at the height of weapons manufacturing.

4. <u>There are many other environmental business opportunities, in both the manufacturing and service sectors.</u> One major source of manufacturing opportunities and jobs is in the building of advanced transportation vehicles and systems, such as solar cars, high speed trains, and light rail. This will become increasingly important as auto emission standards become stricter, following the regulations set by Los Angeles and other cities, and by the recently enacted Clean Air Act.

Donald Connors (of the Environmental Business Council) outlines other manufacturing opportunities: environmental equipment, including air and water monitoring and cleaning devices, marine electronics and technology, energy equipment including photovoltaic cells, and consumer and industrial products, such as recycled packaging goods.

In the service sector, he points to analytical services, such as laboratory or on-site testing facilities; energy or energy conservation consulting services; professional services such as law , accounting, and finance. Additionally there are operational services, including solid and hazardous waste treatment, storage, transportation and disposal.

The possibilities are endless. Everything we do, we can do more ecologically.

5. <u>The markets for environmental business are worldwide.</u> Environmental awareness is heightened around the globe, and people are responding through governments, consumer patterns, and corporate behavior. The demand for environmental clean up is strong and increasing rapidly worldwide, as demonstrated at the recent "Earth Summit" in Rio de Janeiro. One hundred and seventy two nations participated at the United Nations Conference on the Environment and Development, as well as tens of thousands of people from non-governmental agencies.

International agreements were signed at the Earth Summit which will increase demand for environmental goods and services. Nations signed agreements which commit them to environmental action. Hopefully, US foreign aid will assist them in meeting their obligations, thus creating even more environmental business opportunities.

The United States has an edge in this field given our first rate universities, trend setting regulations, and technological capacity. We must not lose our edge in this field as we have in others!

In order to capture our share of these world markets, we must act now.

6. <u>Action should be taken by the federal government now to develop environmental market opportunities and create jobs.</u>

These promising beginnings require encouragement, investment and direction from national policy. Private firms should and will dominate the envirotech industries. But just as with national security and the defense industries, these private firms are addressing public and common needs. Some areas of government involvement include:

* support research and development in envirotech;
* assist companies in identifying and capturing world markets;
* provide direct loans and grants for business start-ups and conversions from weapons production to envirotech needs;
* develop export markets for environmental goods and services through traditional export programs and direct foreign aid programs for environmental clean-up.

Some important legislation has recently been proposed addressing environmental business.

- Senator Barbara Mikulski introduced a bill which would redirect some public investment into environmental and energy technology.
- Congressman Gerry Studds proposed a bill to set up a federal office to assist businesses to find world markets for environmental business.
- Joe Kennedy introduced legislation to create an Office of

National Environmental Technologies in the Environmental Protection Agency that would give grants and loans to companies working on environmental problems such as solar energy and fuel-efficient cars.

In closing, allow me to make an historical comment. Since the Lend/lease programs of the 1930's, the military has been a central part of the American economy. The Department of Defense has created whole industries, provided jobs for millions of people, and been the American substitute for an industrial policy. With the end of the Cold War, we have an opportunity to redirect those resources toward environmental healing. If we focus on environmental industries, we can create wonderful job opportunities, and address human kind's most pressing problems.

Thank you for allowing me to be with you today.

TESTIMONY OF

BRUCE G. SUNDLUN, GOVERNOR
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

TO A HEARING OF THE

DEPARTMENT OF DEFENSE
DEFENSE CONVERSION COMMISSION

IN

GROTON, CONNECTICUT

SEPTEMBER 17, 1992

TESTIMONY ON BEHALF OF GOVERNOR SUNDLUN AT PUBLIC HEARING: DEFENSE CONVERSION COMMISSION, SEPTEMBER 17, 1992

Thank you, Mr. Chairman. My name is Diane Disney, and I head the Research Center in Business and Economics at the University of Rhode Island's College of Business Administration. I am here today representing Rhode Island's Governor, Bruce Sundlun.

Since the Revolutionary War, Rhode Island's economy has been tied directly to the defense industry. During the Civil War, the state's firms produced cannons, rifles, bayonets, blankets, and tents. Similarly, World War II saw Rhode Island become essentially an armed camp for training seamen, popularizing the Quonset Hut, and manufacturing needed supplies. As late as two decades ago, fully three-quarters of Newport's workforce worked directly for the federal government because of the Navy's strong presence.

This background made the withdrawal of Naval forces in 1973 particularly difficult to absorb; in fact, the state's unemployment rate at the time hit 18 percent.

Still, the state was able to enhance its tourism industry, attract some new defense-related employers, and prosper from the stock market and real estate boom of the 1980s. This boom, however, masked a fundamental restructuring of the economy marked by an erosion of the manufacturing base. As a result, the state was not equipped to cope effectively with the defense spending reductions that began in the late 1980s.

When Governor Sundlun was elected two years ago, it was obvious that decisive action had to be taken to redress the state's

economic problems. Before dealing with defense issues, though, he was faced with a major financial crisis, one that led him to close 45 credit unions and other financial institutions. Our state, therefore, had to face simultaneous emergencies in finance, a recessionary economy, and defense dependence in a time of shrinking resources.

To deal with the latter, the Governor's Office has taken decisive action in four major areas:

1. Major efforts have been directed toward attracting new businesses to Rhode Island. But even attracting more private investment than at any time since the establishment of Electric Boat's Quonset Division has not been enough to offset the decline of manufacturing and the loss of defense jobs.

2. There has been a major emphasis on broad-based economic planning, with two statewide economic summits, an Economic Strategy Task Force, and a special team appointed to design implementation activities. Valuable as these efforts are, however, their real rewards are long term; and the state's 9 percent unemployment rate is immediate.

3. Business executive Matthew Galbraith has been appointed to coordinate all the state's activities concerning defense adjustment.

4. Finally, the Governor's Office has encouraged the development of a statewide strategic planning effort unmatched elsewhere in the country. It was imperative to find ways to avoid the massive unemployment and social dislocation that followed the 1973 withdrawal of Naval forces. Doing so required reliable information, not supposition and anecdotes. Therefore, the state secured a $100,000 grant from the Defense Department's Office of Economic Adjustment, to be matched by resources from the Workforce 2000 Council, the University of Rhode Island, and other sources. With these funds, the state created the Defense Economic Adjustment Project (which I co-chair with Dr. Robert K. Griffith, chief of the Office of Strategic Planning).

This study has already produced a number of telling statistics:

*** More than a tenth of our state's employers have documented ties to the defense industry, as prime contractors, subcontractors, vendors, or businesses serving defense employees. Together, these account for roughly a third of the state's workforce. Even though most of these people are not working directly on military supplies or equipment, their employment is still tied to defense spending to some extent.

*** Most of the defense-related employers are small. They typically have no more than 10 full-time employees, annual revenues of less than $1 million, and only a single facility within the state. Therefore, their diversification options are seriously limited.

*** Forty percent of the responding companies report that their ability to enter new markets or to attract non-defense business is hindered by financial barriers and access to capital. Organizations also frequently mention sales or marketing constraints (20%) and governmental regulations (17%).

*** Half of the defense-related organizations say that they purchase at least half of the goods and services for their Rhode Island locations from Rhode Island vendors. Thus, the ripple effect goes well beyond those with obvious defense affiliations.

*** Further, every city and town in the state is home to at least one employer with ties to the defense industry.

*** Finally, as summarized in separate testimony, a special study of data from the Department of Employment and Training and from our Defense Economic Adjustment Project has revealed that a fifth of the people filing unemployment claims in 1991 had worked for a defense-related firm in the previous year.

In other words, Rhode Island's fate is inextricably linked to the success of defense economic adjustment efforts.

Our state has taken a number of steps to lessen the shock of adjustment, but we clearly need help in several areas:

1. For start-up funds to support an industrial technology extension service at our state university, particularly to help small and mid-sized businesses make the transition to the civilian marketplace.

2. For additional job training and career counseling funds to help defense-related workers facing the threat of layoffs.

3. For changes in federal banking regulations that can increase the flow of capital to cash-starved businesses needing to develop new markets.

In short, the state's resources alone cannot meet the conversion needs. We need programmatic and financial assistance from the Federal Government. In turn, Rhode Island stands ready to cooperate with other states, local governments, private sector organizations, and Congress as the economy is redirected.

Thank you for affording me the opportunity to speak with you today on behalf of Governor Sundlun.

RHODE ISLAND'S DEPENDENCE ON DEFENSE SPENDING

TESTIMONY OF

DIANE M. DISNEY, PH.D.

Director, Research Center in Business and Economics
College of Business Administration
University of Rhode Island
Kingston, Rhode Island 02881

TO A HEARING OF THE

DEFENSE CONVERSION COMMISSION

UNITED STATES DEPARTMENT OF DEFENSE

SEPTEMBER 17, 1992

GROTON, CONNECTICUT

RHODE ISLAND'S DEPENDENCE ON DEFENSE SPENDING

Since the 1990s began, Rhode Island's economy has been scuttling along in recession. According to the University of Rhode Island/Providence Journal Index of Leading Economic Indicators, it is unlikely to recover in the near future. Much of the decline is directly attributable to recent and projected cuts in defense-related spending.

From 1988 to mid-1991, Rhode Island lost nearly 4,000 directly defense-related jobs from such employers as Raytheon, Derektor, Electric Boat, and the U.S. Field Support Office in Davisville, according to the state's Department of Economic Development. The result was particularly troublesome because these represented good-paying, primary-sector positions.

This job loss, and uncertainty about continued defense spending, prompted efforts to avoid the social dislocation and extremely high unemployment that followed the 1973 withdrawal of Naval forces. The state, therefore, created the Defense Economic Adjustment Committee to develop the data base necessary for strategic planning. I am here today as co-chair of that effort (With Dr. Robert K. Griffith, Jr., chief of the Office of Strategic Planning).

The committee's work was stimulated by a grant from the Office of Economic Adjustment within the Department of Defense. This was supplemented by funds from the Workforce 2000 Council and by support from the University of Rhode Island, the Office of

Strategic Planning, the National Governors Association, the Department of Economic Development, the Department of Employment and Training, and the state's entire Congressional delegation. (Indeed, support from the offices of Senators Pell and Chafee and Representatives Machtley and Reed has been invaluable.)

Central to the effort was the identification of all defense-related employers in the state. This process began with a listing of all prime contractors and subcontractors; it continued with the addition of all firms selling goods or services to the major prime contractors; it also included all school districts in the state, and extended to those firms known to do business with defense employees. The cooperation provided by prime contractors in this effort was notable.

After cleaning the list, the Research Center in Business and Economics sent questionnaires to 3,400 employers with documented defense ties. It must be stressed that two-thirds of these are neither prime contractors nor subcontractors; however, they do have ties to defense dollars.

A second major study involves our matching that list with data on everyone who filed an unemployment claim in Rhode Island in 1991. The Division of Labor Market Information and Management Services of the state's Department of Employment and Training made these records available with all individually identifying information removed.

This testimony presents some pertinent findings from the research:

*** Every community in Rhode Island is home to more than one defense-related employer. Electric Boat, for example, deals directly with 421 firms found in Providence (98), Warwick (70), Cranston (39), and several dozen other communities as well. Beyond these 421 are several hundred additional employers who provide health care, food, education,housing, and other goods and services for Electric Boat's employees.

*** Every school district is also affected, as each is home to some defense employees.

*** In 1991, 85,878 Rhode Islanders filed claims for unemployment compensation. Of these, at least 14 percent had lost jobs with a Department of Defense prime contractor, subcontractor, or vendor. At least another 5.5 percent had worked for such an employer within the year. Overall, then, at least a fifth of those filing for unemployment in 1991 had recently been working for a defense-related employer. (These figures refer to prime contractors' vendors, as well as to the contractors and subcontractors themselves; thus, while the connection might not be apparent, it is nonetheless real.)

*** Although more men than women were unemployed (56% vs. 44%), the gap widened among those laid off from defense-related jobs. Here men accounted for 64 percent and women 36 percent of the group. Because men tend to earn more than women, on average, this widening gap represents an economic loss to the state.

*** Over a third of the laid-off defense-related workers (34.9%) had at least one dependent.

*** While 27 percent of the employed defense-related workers were under 30, 29 percent were in their thirties, and 44 percent were 40 or older. Despite age discrimination statutes, therefore, their age could work against their successful reemployment.

*** Of 1,106 employers commenting in late 1991, 42 percent said that all or most of their workers would have difficulty finding other jobs even if they were willing to leave the state.

*** Individuals whose most recent employer was a defense-related firm lived in every city and town in Rhode Island. Only Providence (at 13.4%) accounted for more than a tenth of these former employees. However, a seventh of them (14.2%) filed claims from outside the state, suggesting that emigration may already be a significant factor.

The picture painted by these figures is worsened by the fact that the number of bankruptcy cases filed in Rhode Island grew from under 1,000 in 1988 to over 3,000 in 1991. The state is currently leading the nation in its rate of bankruptcy filings. Thus, the likelihood of non-defense employers having the capacity to hire dislocated defense workers continues to diminish.

Further, during the last quarter of 1991 and the first quarter of 1992, Rhode Island had the nation's highest delinquency rate on consumer loans, according to the American Bankers Association. Defense layoffs, the credit union crisis, and the regional recession have combined to create sometimes crushing levels of personal debt.

In short, then, the actual and projected cuts in defense spending represent serious problems for Rhode Island. To address these, the state has taken action in a number of areas:

*** The Governor appointed an Economic Strategy Task Force, which presented a blueprint for long-term economic development, known as *Moving Rhode Island Forward*.

*** To follow that report, he appointed JOBS-RI, an eight-member group that has compiled a detailed action agenda, many steps of which have already been implemented.

*** Since January 1991, the Governor's Office and the Department of Economic Development have attracted more private investment to the state (with accompanying jobs) than in any comparable period since the location of Electric Boat at Quonset Point 18 years ago.

*** The state's Department of Employment and Training has collaborated with its Connecticut counterpart to secure Department of Labor funds to provide career transition help to employees being dislocated from Electric Boat.

*** The state has applied to the Department of Labor for additional funds for a Defense Workforce Adjustment Program.

Other efforts have occurred as well, But clearly the state does not have the resources to do much more without significant federal assistance. Therefore, I request that the Commission seriously consider providing or recommending the provision of help in the following ways:

1. Funds to support an industrial technology extension service, particularly to help small and mid-sized businesses adapt to changing market realities.

2. Additional job training and career counseling funds to help defense workers facing the threat of dislocation.

3. Changes in federal regulations that can make it easier for state and local governments to cooperate across conventional boundaries.

4. Changes in federal banking regulations that can help cash-starved businesses needing to develop new markets.

(Our survey respondents cited access to capital as a major impediment to diversification efforts.)

Everyone affiliated with the Defense Economic Adjustment Project greatly appreciates the support already provided through the Office of Economic Adjustment and the Department of Labor. We ask that this support be continued and, ideally, increased to help meet short-term needs while the state develops the infrastructure necessary for long-term adjustment and growth.

Thank you for giving me this opportunity to testify.

DIANE M. DISNEY

Diane M. Disney is director of the Research Center in Business and Economics at the University of Rhode Island, where she teaches management policy at the College of Business Administration. She currently co-chairs the state's Defense Economic Adjustment Project.

For several years Dr. Disney had an adjunct appointment to the graduate faculty of the Heller School at Brandeis University, where she coordinated the Ford Foundation's project on employment-related benefits. She has also worked as executive director of the Rhode Island State Council on the Arts and has been Rhode Island Associate for the Urban Institute's Nonprofit Sector Project.

In addition to working as a management consultant to numerous governmental agencies and private concerns, Dr. Disney has been a board or committee member for roughly 30 nonprofit organizations. Currently, for example, she chairs Women's Opportunity Realty Corporation, is treasurer of SER=Jobs for Progress, and serves on the national board of the Federation of State Humanities Councils; she is immediate past president of the New England Foundation for the Humanities. In the public sector, she serves on the Governor's Personnel System Review Committee, JOBS-RI for economic development, the Rhode Island Human Resource Investment Council, two state legislative commissions, and the Civil Justice Advisory Board for the U.S. District Court.

Dr. Disney received her Ph.D. from Brandeis University in policy analysis. She also holds graduate degrees from URI and from Duke University and an undergraduate degree from Stetson University. She has written and edited publications on various aspects of management and governmental spending; in addition, she serves as book review editor of Compensation & Benefits Management. Her own most recent book is The Sourcebook on Postretirement Health Care Benefits: 1990 from Panel Publishers.

15 September 1992

(1)

Ralph L. Klein
172 Broad Street
Norwich, CT 06360

Testimony to the
Department of Defense
Defense Conversion Commission
September 17, 1992

Background

My name is Ralph L. Klein and I am, in the terminology being used in the defense industry today, a displaced defense worker. The reason for my giving testimony before this Commission is to present the views of a defense worker who has been terminated but was able to find other employment. For someone like me, there are issues of assistance to us and our families which are not being addressed.

For over half of my professional career, I was employed in industries once considered vital to the defense of the United States of America. Most recently, I was a Program Engineer with UNC Naval Products, where I spent 3 years involved in the production of nuclear reactors for the United States Navy. Prior to coming to UNC, I worked for Westinghouse as a Production Technology Engineer at the Feed Materials Production Center (FMPC) in Fernald, Ohio. This was a GOCO (Government Owned Contractor Operated) facility operated by Westinghouse.

My family and I made a difficult decision in moving from a secure job at FMPC in a region of the country that had a moderate cost of living (Cincinnati) to an area with a much higher cost of living (Connecticut). What made that decision easier was that:

- I had always believed that the Government would "take care" of its defense workers and that there would always be employment working in the defense of the United States. UNC always boasted of having contracts that would keep them busy for the foreseeable future.

- I would be going into a high technology industry at a modern and well maintained facility. In addition, it was one of only two such facilities in the country (let alone one of only a few in the world) that manufactured naval reactors.

- I was always told that the government would keep two vendors of naval reactors in business to guarantee its supply.

With the decision made, I came to UNC Naval Products early in July, 1987. We had bought a house in Norwich, Connecticut, and my wife and I moved here in August, 1987, which was the height of the real estate market. For three years, I worked at supporting the production of high quality, precision fuel components for use in nuclear reactors for the United States Navy. I enjoyed my work and was impressed with the quality of the employees.

My future with UNC and the defense industry came to a sudden end in the March of 1990, when it was announced that UNC would be closing its doors and the employees would be notified of their termination dates. Two weeks later, we were informed of our individual termination dates and of an incentive package that would be offered to those employees who remained until their termination dates. A bonus and severance package, which included the use of an out-placement center and help in resume writing, was the incentive. On June 8, 1990, my termination date, I sadly left UNC as an employee for the last time.

I don't know if I was more perceptive than anybody else, or I was more worried about being unemployed than anyone else since I had a family to support, but in late January, 1990, as UNC

began laying people off, I began sending my resume to prospective employers. These initial layoffs were due, we were told, to decreased workloads because of the cancellation of some longstanding programs by the Navy. In addition, I had grown up with the impression that unemployment was only for poor workers and those who were lazy. How times have changed. Luckily, the "peace dividend" had not fully started being felt, and I had many contacts out in industry from previous employment, I was offered a number of job interviews over the ensuing months. In addition, immediately after the plant closing was announced, my wife and I put our house on the market in an attempt to sell it, thereby freeing us up to relocate and moving on with our lives. By the time I left UNC, I had some job offers, all of them far beyond any commutable distance.

I continued to send out my resume after leaving UNC. During my job hunt, I sent out well over 100 resumes. On July 3, 1990, I interviewed with my current employer, The S.M. Stoller Corporation, in Pleasantville, New York. Stoller offered me a good opportunity, perhaps not the best overall offer I received, but still a good position. After much deliberating and soul searching, my family and I (which had grown since joining UNC to include two children) decided I should take the Stoller offer since our house had still not sold, and there was no rental market. The key to this decision was the fact that Stoller was <u>only</u> 116 miles from our house (which means a minimum of 5 hours per day driving in the car) so I would be able to commute, if necessary. I began my career at Stoller on August 27, 1990 and have been commuting to my office since then. It should also be noted that it was, and remains, financially impossible to rent an apartment near my office to live in during the week and to come home on the weekend, and still keep up the house payments. In addition, that is truly not an acceptable solution to our problem.

Ralph L. Klein

Testimony to the
Department of Defense
Defense Conversion Commission

Impact to My Family

The impact to both me and my family has been significant. As you now probably realize, the impact to my "quality of life" has been dramatic. My day begins at 4:30 A.M. when I awaken. I leave the house around 6:30 A.M. and arrive at the office between 9:00 and 9:30 A.M. usually after a harrowing commute which includes fighting Connecticut and New York area traffic. I leave the office around 5:00 P.M. and arrive home at approximately 8:00 P.M. depending on the evening traffic. There have been days when I have spent over eight hours in the car, I have totaled one car in an accident, worn out another car, and been rear ended twice (most recently two weeks ago in a driving rainstorm during what turned out to be an eight hour day in the car). There have also been many days when I should have turned around and come home before getting to the office because of severe weather or terrible traffic problems (there have actually been occasions when I have turned around). With UNC, I lived approximately 5 miles from the plant.

With my new job came new and bigger responsibilities and in addition, a higher level of compensation. However, as I stated, my "quality of life" has significantly been degraded. I keep long hours, I miss a lot of time with my family, and my quality of work has suffered. This truly concerns me because I have consistently received excellent performance reviews. Not only I am working harder at my job and missing out on my family life, but my work quality is getting worse, all due to not having enough time to do my job. As I previously mentioned, I have a wife and two children. I am missing the growth of my daughters, ages three and four, because I am away from home for up to fifteen plus hours a day. With the hope of selling our house, my wife's teaching career has been put on hold. All we want to do is get on with our lives, which are now at a standstill.

Ralph L. Klein

Testimony to the
Department of Defense
Defense Conversion Commission

What is holding us back is the inability to sell our house. We have had our house on the market for over 2½ years, have lowered the price by 40% and, if we were to sell it today, we would lose over 20% from what we bought it for, not including the additional loss of $12,000 in home improvements we made. My main concern is that this is the kind of issue that is not being addressed as part of the compensation/assistance benefits being considered for, and offered to, out-of-work defense workers. All I am hearing about is the extension of unemployment benefits and the retraining of workers, neither of which affects someone like me.

I have a B.S. degree in Metallurgical Engineering with over eight and a half years experience in high technology, high quality, precision manufacturing. I am also proficient in the use of personal computers. I am working full time in my field and do not require retraining! I believe I am typical of some, if not many, defense workers who were terminated due to plant closures or lack of work, primarily due to the significantly decreased defense budgets. We have either found work, or are unable to relocate due our housing situation. What kind of retraining should I go through? What company in the local area will hire me after I have been retrained? How will I provide for my family on approximately $200 per week in unemployment compensation while I am being retrained? If I can relocate, who will buy my house?

When the peace dividend was first being considered by the people of this country, many of them talked about switching defense companies over to manufacturing commercial goods. What no one has addressed is the issue of promoting the growth in the economy necessary to support that increased manufacturing base. In other words, with all the former defense companies now making washing machines, VCRs, or cars, who will buy them? How much can the economy grow? Some of the key questions that need to be answered are:

- How does the local economy compensate for lost revenues?

- How do the local and national economies grow to absorb those formerly involved in defense work?
- How are the workers retrained to make them most useful to society?
- While retraining is going on, how does the former defense worker pay their bills and provide for their family?
- For those workers able to find other jobs, what assistance can be given to help them with relocation expenses. This must include the sale of a house rather than having their credit ruined by a foreclosure, or worse, bankruptcy?

There may not be a need for so called "make work programs." There are already existing projects that will require staffing with well trained workers. The two that immediately come to mind are the clean-up of contaminated (both radioactive and toxic) facilities, and the rebuilding of the infrastructure . The clean-up effort at Fernald is estimated to cost over $2 billion and the effort at Hanford, in excess of $50 billion. These are just two of many. In this election year we also keep hearing about how our bridges and roads require repair (and believe me, I know about the problems facing our roads and bridges). The government is always ready to bail out failed programs for the good of society (such as the Savings and Loan banking scandal), help victims of natural disasters, and provide programs for veterans. Well, the former defense workers gave their careers and lives for the good of the country during the Cold War and they should be compensated for their efforts. I believe it is an absolute waste that there are talented and well trained people, many with technical and even advanced degrees that are out of work, or are reduced to working at a casino or bookstore. In Southeastern Connecticut, this is not an exaggeration. There are former supervisors and highly trained technical people working at the big new industry here, the Indian Casino, and others, such as one with an advanced engineering degree is working in a local bookstore. Others are working in temporary jobs, waiting to find something permanent. Still others went to work for companies that later laid them off due to the

significant downturn in the economy. What can be done to help us?

Recommendations

While I am not an expert in this field, their are areas that I feel should be addressed in some way by our Federal Government. They are as follows:

- More effectively address the issues of retraining to best suit the needs of private industry and the government.
- Although formidable, review the needs of former workers on a case by case basis, or at least provide for a way in which to address the special needs of these people.
- Help defense workers relocate so they can continue to be a part of the United States workforce and continuing to pay taxes and contribute to society.
- Aid local communities so these types of problems can be addressed on a local basis, instead of allowing the communities to go down the drain.
- Recognize that unemployment compensation and retraining are not the panacea for all the problems addressing workers. Other concerns exist and must be addressed.

Finally, I would like to thank the Commission for hearing my concerns. With its help, and the attention of our elected officials, we can make it through these very difficult times.

Thank you,

Ralph L. Klein

September 14, 1992

Mr. Ralph L. Klein
172 Broad Street
Norwich, CT 06360
(203) 886-6396

Colonel Steve Jones
Deputy Director
Department of Defense
Defense Conversion Commission
1825 K Street NW, Suite 310
Washington, DC 20006

Dear Colonel Jones:

I am in receipt of your letter of September 9, 1992 concerning my testifying before the commission on September 17, 1992 at 2:20 P.M. In that letter, you asked me to submit a brief biographical sketch and an outline of my testimony. I am therefore attaching a copy of my resume which should provide you with the key details of my professional background.

In addition to my resume, the most pertinent reasons for my testifying before the Commission are that:

- Over half of my professional career has been spent working in industries directly involved in the defense of the United States of America, i.e., one and one-half years at the Feed Materials Production Center in Fernald, Ohio where I was responsible for producing material for tritium and plutonium production; and approximately three years at UNC Naval Products in Uncasville, Connecticut where I was responsible for the production of fuel components for nuclear reactors for the United States Navy.

- I was terminated from UNC as part of the plant closing and currently commute over 115 miles each way to my current job (which equals a minimum of five hours in the car each day). I make this commute daily because my wife and I are unable to sell our house. This is a direct result of the economic impact to the local area due to cutbacks in the defense industry. In addition to my wife, I have two small children that I want to see and whose lives I want to be a part of.

I feel it is important for the Commission to hear from those who were directly affected by defense cutbacks and are attempting to get our lives back together. Not all of us are unemployed and require retraining, some of us have careers and lives that we want to get on with.

Ralph L. Klein
172 Broad Street
Norwich, CT 06360
203/886-6396 (Home)

Objective:

A professional position with technical responsibility in Program/Manufacturing or Quality Control/Assurance Engineering, with the opportunity for advancement and increasing responsibility.

Work Experience:

August 1990 - Present
Staff Engineer, The S.M. Stoller Corporation, Pleasantville, New York
(ASME/NQA-1 Certified Lead Auditor)

Provide engineering consulting services to utilities and research organizations in the areas of quality, materials performance, design and process developments, manufacturing and inspection techniques and program economics.

- Responsible for performing quality assurance audits of facilities manufacturing high precision metal and ceramic components. These components are used in power generation facilities and require a high degree of quality. This work includes reviews of the fabrication process, documents, and design and the analysis of manufacturing and inspection techniques.
- Perform technical evaluations of the performance of materials under extremely adverse conditions, and technical comparisons of new product designs.
- Perform engineering feasibility studies of advanced processing and inspection techniques.

These efforts require a considerable amount of verbal and written communication including extensive technical reports.

July 1987- June 1990
Program Engineer, UNC Naval Products, Uncasville, Connecticut
(DOE L Clearance)

Responsible for manufacturing and inspection support during development and initial production phases of new products requiring an extremely high degree of quality. These products are used in nuclear propulsion systems for the U. S. Navy. This work involved writing technical reports, manufacturing and quality inspection instructions, contract changes and customer required documentation requiring formal submittals. Additionally, process changes, product follow, process and product evaluations and problem solving in numerous plant areas was required.

- Provided engineering support for the certification of new inspection techniques and software.
- Served as lead engineer on proposals for new programs valued in excess of $100 million and provided engineering support on bid efforts involving new contracts for standard product lines. These proposal efforts required work in areas of process development, processing times, equipment lists and quality related issues.
- Established and maintained databases for tracking new product yields and trends for specific inspection areas.

Honors, Professional Memberships, Community Activities:

- Westinghouse President's Quality Pacesetter Award
- Member of American Society for Metals, American Nuclear Society and American Society for Quality Control
- Better Business Bureau Arbitrator

Defense Conversion Commission

September 16, 1992

Good afternoon ladies and gentlemen. My name is Janet Dinkel Pearce, and I am Chief Professional Officer of the United Way of Southeastern Connecticut. By way of introduction, our organization raises over $3,600,000 annually from residents and employees of New London County. We in turn use the money to provide funding to 35 agencies throughout the county, including New London, Groton and Norwich.

As one of our key strategic issues, we continually address the questions of growing and changing needs as seen by our funded agencies. They are on the firing line--they see the changes as they occur. It is those changing and growing needs that I would like to address today.

In virtually every category of service our agencies see a two-pronged problem: increasing need and decreased funding. A significant amount of this increased need is coming from former employees of defense related industries who can not find employment in our community or who are "under-employed". By "under-employed", I mean that they have gotten a new job but at a wage so much lower that it threatens their ability to pay the mortgage and other basic bills.

Let me give you some examples:

- Child care programs find they have openings because now only one parent is working so they don't need child care.
- But more of the children in the programs now need subsidy or a significantly larger subsidy
- Outpatient psychiatric care grows by 60% at Catholic Charities, with increased patterns of family dysfunction
- There is a dramatic rise in the need for medical and health services provided by United Community Services, school based health clinics sponsored by Child and Family Agency and Visiting Nurse Programs. In every instance, this is because of reduced family income resulting in the need for free or heavily subsidized basic medical and dental care for children and the elderly.
- All programs providing training anticipate a sharp demand increase.
- Every agency program dealing with substance abuse reports a dramatic rise in demand. Unfortunately, substance abuse--both drugs and alcohol--is sometimes a response to the stress of unemployment.
- Those who are unemployed are often looking for volunteer opportunities in order to stay involved; but programs such as Big Brother/Big Sister are finding it harder than ever to recruit volunteers because there are some expenses involved in being a volunteer such as maintaining a certain level of auto insurance.

' Some of the service needs are basic: Transportation to get to the training program or a hot lunch while in a training program.

Here are some startling data for a community the size of New London County. The United Way operates the United Way/Labor Division Food Center to provide food at no cost to shelters, soup kitchens, food pantries and day care centers. All of these programs use this food to supplement other sources and budgets they have, but the Food Center contributes over $100,000 of food purchased at 12 cents/pound or wholesale, as well as 25 tons of food contributed last year.

Each month these feeding sites provide us with statistics showing the number of meals provided. From January through July in 1991, 201,859 meals had been served--an average of 29,301 per month. In the same period in 1992, 237,368 meals had been served, an average of 33,910 monthly. This represents a 17% increase in that most basic need for survival--food.

Let me give you one more example of a new program for people in need. Last year a number of funders, including United Way, four area foundations, Electric Boat Community Services Association and FEMA contributed funds to provide up to a $100 subsidy to individuals who had exhausted every other option for fuel assistance. More than 10 agencies, including TVCCA, Catholic Charities, the Salvation Army and others worked together to make certain that no one froze to death during the winter. Yes, we had a mild winter, fuel prices were down, and we made it through OK. That means that we only had to help 263 individuals and families who otherwise would not have had heat.

This is a proud community--a hard working community. Our unemployment rate in this area tends to be very low because the residents are hard working. When the defense industry experiences the dramatic cutbacks we have seen and may continue to see, people are thrust into an unknown and uncharted territory. The residents of New London County are not looking for handouts--food, fuel or otherwise.

Instead, they are looking for the training it takes to get the jobs they need to provide for their families, maintain their homes and retire to a healthy old age. They also need counseling and training to become entrepreneurs: how to use and develop their skills to bring sufficient income for themselves and possibly other employees. These requests are not dramatic. We are attempting to provide for the period of transition as we shift from an economy based on the defense industry to one based on tourism or other new and growing industries.

Thank you for your attention.

TESTIMONY OF HAROLD PAYSON III
MAINE STATE PLANNING OFFICE
(207) 287-3261

Greetings

Good Afternoon! I am glad to have this opportunity to address the Defense Conversion Commission & to bring greetings from the people of Maine.

My name is Harold Payson. I am from the Maine State Planning Office and testifying for Maine's Task Force on Defense Realignment and the Maine Economy. In the few minutes I have I would like to concentrate on just two subjects. First, I would like to say a few words about Maine's Task Force on Defense Realignment & the Maine Economy, what the Task Force has done & where it is headed.

Second, I would like to focus upon some federal policies & regulations which greatly reduce the effectiveness of federal programs for worker adjustment assistance. These policies & regulations act as barriers, and prevent Maine from responding effectively to the needs of defense workers at risk or already out of a job. These barriers are real and are an important part of the problem.

Maine's Task Force on Defense Realignment and the Maine Economy

Maine's Task Force on Defense Realignment and the Maine Economy was established by Executive Order from Gov McKernan in July of 1990. The Task Force became a statutory task force on July 1st of this year.

To date the Task Force has divided its efforts between addressing the needs of workers, communities & businesses. I have brought along a few copies of the Task Force's Interim Report dated March 9, 1992 plus several copies of a draft Defense Adjustment Action Plan dated June 30, 1992.

The Interim Report makes clear that the various national studies by DOD and OEA have consistently underestimated the severity of the impact defense cutbacks are having upon Maine.

The draft Action Plan approaches community needs by stressing the importance of multi-jurisdictional & proactive planning and the need for funding to get communities to address early on the strategic choices they face.

The Action Plan approaches business needs by looking for ways to bring businesses together to address common problems & to engage in strategic planning. State government's role is perceived to be that of catalyst.

The Action Plan proposes that worker needs be addressed through an innovative pilot program to be established in the four most defense dependent areas of the state.

The Task Force has a number of suggestions for improving federal defense conversion assistance programs. Please refer to written Appendix 1 accompanying my oral testimony. I'll mention just three of these suggestions.

•No federal match. The match concept was designed to indicate community commitment to action. Defense-impacted communities have events thrust upon them by the Federal Govt. Thus the match requirement is inappropriate.

•Fast-track assistance by minimizing Federal agency involvement. Current DOL and EDA programs move too slowly to be most effective.

•Simplify the application process.

One further note. Maine has had an excellent relationship with EDA over the years. EDA has been very supportive. One concern that Maine has is that efforts to engage EDA more directly in defense conversion not be at the expense of other traditional EDA programs upon which Maine has depended.

Federal Barriers to State & Local Efforts to get Defense Workers Back to Work

My primary reason for testifying today is to identify two problem areas where federal policies & regulations are severely hampering the effectiveness of federal worker adjustment assistance programs.

Maine has been buffeted by recession & now defense cuts. As a result the Maine DOL has been very active accessing federal programs & funding for worker adjustment assistance. Since early 1990, MDOL has applied for and received nearly 5 million dollars worth of federal discretionary funding through the current USDOL grant application process.

In the course of applying for the federal funding, providing vitally needed services to workers & finally accounting for the federal dollars spent, it has become very clear that a number of federal policies & regulations however well intentioned have a very negative impact upon the services that workers receive.

What I would like to do is to pinpoint two areas that seem to cause the biggest problems, & where a change of federal policy or regulation promises the biggest gain for workers. There are undoubedly some risks in relaxing federal strings, & occasionally mistakes at the local level may result, but the cost & risk to workers of not making the recommended changes is far greater (by an order of magnitude).

Barrier #1: Lack of Easy Access to a Flexible Funding Mechanism

The lack of easy access to a flexible funding mechanism is spelled out in written Appendix 2 accompanying my oral testimony. **Rapid response is undermined by USDOL application requirements.** Maine recommends extending the DCA appropriation and providing states with a less restrictive application process.

Barrier #2: Restrictions that Inhibit Early Intervention

Numerous policies & regulations in federal worker adjustment assistance programs make it difficult for states to be proactive delivering services. For example, USDOL policy that news that a particular base will close does not indicate when a layoff will occur and who will be laid off has prevented Maine from using any existing EDWAA readjustment and retraining resources at Loring AFB even though base closure was announced in 1990!

Maine's recommendation is to make workers at military facilities eligible for receipt of JTPA services once a closure or realignment is announced. Details of Maine's recommendation and a recommended legislative remedy are contained in written Appendix 2 to my remarks.

Thank you. For the person in Maine most knowledgeable on the subject of barriers within the existing federal worker adjustment assistance programs you should contact Mike Bourret who heads up our RETI (Rapid Employment and Training Initiative) Team. He may be reached at (207) 287-1292.

I would be glad to try to answer any questions.

Appendix 1

DEFENSE CONVERSION ASSISTANCE SUGGESTIONS

1. Community Economic Adjustment/Diversification Assistance:

   - $$ to communities, regional planning commissions, or states.
   - Fund strategy and implementation, with emphasis on implementation (public works, infrastructure, revolving loan funds).
   - **No federal match. The match concept was designed to indicate community commitment to action. Defense-impacted communities have events thrust upon them by Federal Govt. Thus, match requirement is inappropriate.**
   - Provide incentive for multi-jurisdictional efforts.
   - **Formula should be based upon defense workers (civilian and military) as % of Labor Market Area employment.**

2. Business Assistance:

   - $$ to states to finance existing or new business assistance programs tailored and targeted to defense-dependent firms.
   - assist existing businesses and facilitate creation of new firms.
   - **formula based on private defense workers as percent of state private employment.**

3. Worker Adjustment:

   - $$ to states
   - fund new skills development and skills upgrade
   - fund skills centers -- staff, equipment, materials.
   - fund development of innovative training materials and curriculum.
   - make services available to defense-dependent workers **before** impact.
   - allow flexibility to mix state, higher ed, private education and training communities.

4. General:

- Fast-track assistance by minimizing Federal agency involvement. Current DOL and EDA programs move too slowly to be effective.

- Simplify application process.

- Recognize fiscal constraints faced in most states and localities. **i.e. no match.** The match concept is inappropriate in this case.

- If state has conversion strategy, they should be given leeway in gaining and utilizing Federal assistance.

- $$ should move to States and locals well in advance of closure announcements and procurement cuts.

Appendix 2

TWO CRITICAL BARRIERS HAMPERING MAINE'S DEFENSE WORKER ADJUSTMENT ASSISTANCE PROGRAM

Barrier # 1

Lack of Easy Access to a Flexible Funding Mechanism: In the past 3 years, Maine's Dislocated Worker Unit in concert with other entities has authorized ten specific project applications totalling nearly $5,000,000 in National Reserve Funds. USDOL grant application data requirements are extremely cumbersome, often very time consuming to compile and sometimes impossible to obtain. The process requires an already overburdened staff to divert energy away from direct intervention activities. Once the application is submitted, which often takes 4-6 weeks, it is not uncommon for USDOL to require additional information before final approval is obtained.

After final approval is obtained, which can take another 6 weeks to a couple of months, the situation may be markedly different from when the grant was originally proposed. This sometimes means that the grant application has to be modified again to reflect the changed circumstances.

If a state has only one discretionary award from USDOL in any given year, the application and modification process, although cumbersome, might be manageable. However, the multitude of grant applications are not likely to cease any time soon, given the dynamic nature of the current economic climate and the volume of dislocation here in Maine. Significant streamlining is required.

With respect to the issue of flexibility, there have been many occasions in this state when resources could have been easily redirected from one population to another, if the Dislocated Worker Unit was given the authority to do so and it was not first necessary to submit a lengthy and descriptive modification.

In many cases, even a lengthy modification will not suffice. For example, as we look toward additional layoffs at both Portsmouth Naval Shipyard and Bath Iron Works, two entirely new proposals will need to be written once again.

Each time a new award is granted, a separate participant and fiscal tracking mechanism must be established. Frankly, there are already too many funding streams with unique eligibility and other criteria to serve displaced workers.

Recommendation 1: Extend the DCA Appropriation and provide states with a less restrictive application process.

The delay in making DCA funds available for allocation makes this recommendation essential. It is probably not possible to allocate the remaining $120 million by September 1993 when the current appropriation is due to expire.

Barrier # 2

Restrictions that Inhibit Early Intervention: Current EDWAA provisions make it difficult for a state to be proactive in delivering services. For example, USDOL rules prohibit the use of DCA funds for rapid response services, including the cost of establishing labor management committees. Also, early intervention basic readjustment services or retraining provided with Title III funds cannot be reimbursed with DCA funds once they become available.

In addition, unless a worker receives a dated individual-specific separation notice from a facility, basic readjustment services or retraining is prohibited. USDOL policy states that the news that a particular base will be closed does not indicate when a layoff will occur and who will be laid off. The concern is in part due to extensive bumping and transfer procedures. This USDOL policy has prevented Maine from using any existing EDWAA readjustment and retraining resources at Loring AFB even though base closure was announced in 1990!

Further, since retraining is usually not a major component of early intervention, the 50 percent retraining expenditure requirement effectively prevents us from even applying for any funds for early intervention. For example, the only way the state was able to mount a limited intervention strategy at Loring was due to state general revenue fund availability.

Another restriction is that DCA funds may not be used for the secondary impacts of defense dislocation. Workers laid off by employers who suffer a loss of business activity due to the closure of a nearby military facility or defense contractor are not eligible for DCA assistance based on USDOL's interpretation of the current statute (Federal Register, Oct. 9, 1991, Vol. 56, No. 196, pp. 51131, Part IV.1.b(2)), but they are eligible for assistance under the EDWAA National Reserve. If a DCA grantee wishes to establish a community readjustment center to serve both workers on a military base and those dislocated outside the military base, under current rules they must forward a two-part application or two separate applications and separately track each pool of funds based on whether a client is from the base or the surrounding community.

Recommendation 2: Make workers at military facilities eligible for receipt of JTPA services once a closure or realignment is announced.

Closures and realignments of military facilities offer a unique opportunity to provide extensive early intervention assistance, since considerable advanced notice of substantial layoffs is usually available. Certain types of low cost, on-site assistance should be immediately available to workers who are undergoing workforce reductions. These services include personal, financial, and career development counseling, job search information and assistance, basic remedial education, provision of information on available services, and development of workforce adjustment plans by labor-management committees. Most of these services are considered by USDOL to be basic readjustment and retraining services which require enrollment in the program.

Legislative Remedy: We recommend building upon Rep. Schroeder's JTPA amendment (HR 4953) which would establish DCA eligibility for civilian employees of the Department of Defense once the closure or realignment has been announced. However, we would suggest broadening this provision to establish eligibility for all JTPA programs rather than just the DCA programs. It is important that state and local areas be given the ability to use currently available funds before accessing the federal discretionary funding system for additional assistance.

AN ANALYSIS OF MAINE'S DEFENSE DEPENDENCY:

INTERIM REPORT OF THE GOVERNOR'S TASK FORCE ON DEFENSE AND THE MAINE ECONOMY

Richard H. Silkman, Chair

March 9, 1992

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1. INTRODUCTION

Revolutionary changes in superpower relationships combined with unsustainable federal government budget deficits have led to a significant shift in U.S. national security priorities. The easing of international tensions are allowing a dramatic reduction and restructuring of the U.S. defense posture. While a welcome sign of increased security, the shrinking and shifting of defense spending is having a profound impact upon the businesses, employees and communities that have come to rely on defense spending.

In July of 1990, recognizing the prominence of defense activities in Maine and anticipating the potential effects of defense spending cuts, Governor John R. McKernan, Jr. established by Executive Order, the *Governor's Task Force on Defense and the Maine Economy*. Governor McKernan initiated the Task Force to develop a strategy to guide Maine's private and public sector efforts to cope with the potential dislocations, and capitalize on the opportunities associated with reduced defense spending in Maine. Such an effort is designed to help Maine workers, businesses and communities to buffer the economic consequences of shrinking defense spending. This report presents the preliminary findings of the Governor's Task Force and outlines of a strategy to reduce Maine's defense-dependency.

Defense-related enterprises in Maine span the spectrum of defense activities and stretch across the breadth of the State. They include military installations such as Portsmouth Naval Shipyard and Brunswick Naval Air Station in Southern Maine, and Loring Air Force Base in rural northern Maine, as well as a number of smaller installations. They include a number of private firms which are largely dependent upon primary or secondary defense contracts, including Bath Iron Works (Maine's largest private employer), Saco Defense and others. Hundreds of other Maine businesses and thousands of jobs serve these defense facilities, contractors and their employees as suppliers, subcontractors, retailers and service providers.

Maine communities, businesses and workers have already felt the harmful effects of reductions in defense spending. Loring Air Force Base has been slated for closure by the middle of 1994. Pease Air Fore Base in neighboring New Hampshire closed in 1991. Portsmouth Naval Shipyard in Kittery Maine eliminated 1,400 jobs in 1991 and will reduce its workforce by an additional 600 in early 1992. Bath Iron Works is in the midst of a reduction in employment of up to 2,500 prompted by a reduction in the naval shipbuilding program. The Over-the-Horizon Backscatter radar installation in Bangor has been reduced from an active force of 530 to a skeleton crew of 40, and several other Maine firms have lost jobs to defense spending reductions.

Through its deliberations, the Task Force has learned of efforts underway in Maine communities and businesses to respond to or anticipate defense cutbacks. Communities in southern York County are working to cope with both the closing of Pease Air Force Base in New Hampshire, and the down-sizing of the Portsmouth Naval Shipyard in Kittery. Others in the Biddeford-Saco area have begun to identify the risks to their local economy associated with the high degree of defense-related production in the area. In the mid-coast area, business, citizens

and government have joined to work toward reducing the defense dependency of their region. Finally, the Maine Peace Economy Project, a coalition of citizens, businesses and labor has been working to raise the awareness of Maine communities about the implications of reduced defense spending and defense-dependency.

It became clear early in the work of the Task Force that this effort would require an on-going commitment to analysis and policy development. The full development of an effective strategy was beyond the capacity of the Task Force to accomplish with the resources available. Consequently, a grant by the Economic Development Administration has been secured to support the on-going work required to produce a meaningful policy and programmatic response to defense cutbacks in Maine.

Finally, this preliminary report comes one year after the end of Operation Desert Storm, the formal dissolution of the Soviet Union and the announcement of the closure of Loring Air Force Base. These events, coming only months apart, emphasize the inherently volatile nature of national defense needs in the 1990's. We cannot predict precisely how Maine will be affected by future defense changes. However, we can be certain that communities, businesses and workers that do not reduce their dependence on defense spending face many years of instability.

2. SUMMARY OF FINDINGS

A significant share of Maine's economy is defense dependent.

Defense dollars support some level of activity in virtually every part of Maine. While defense-related activity in Maine is widespread, it is most concentrated in three regions--York County (Portsmouth Naval Shipyard, Pease Air Force Base, Saco Defense, Fiber Materials, Inc.), Bath-Brunswick (Bath Iron Works and Brunswick Naval Air Station) and Central Aroostook County (Loring Air Force Base). In addition, a number of smaller military installations and primary and secondary defense suppliers are scattered around the State.

Aroostook County, for example, relies on Loring Air Force Base to support, directly and indirectly, nearly 6,000 jobs. Located in remote Northern Maine, Aroostook County has a per capita income that is only 81% of the Maine average and 74% of the U.S., and also suffers from above-average unemployment rates. The loss of Loring may push the County's unemployment rate to nearly 16%, from its 1990 level of 7.4%, and drain nearly $200 million in income annually from the region.

York County, a largely rural area in southern Maine, is already suffering the effects of the closure of Pease Air Force Base in neighboring New Hampshire. But the residents of this county rely even more heavily upon the 7,800 jobs at the Kittery-Portsmouth Naval Shipyard (about half of which are filled by Maine residents), as well as a number of smaller private defense contractors. The loss of this major employer could boost York County unemployment to over 10% nearly double the 5.5% rate experienced in 1990.

Similarly, the Bath/Brunswick area hosts not only Bath Iron Works, Maine's largest employer, at 11,400 workers, but is also the locale of Brunswick Naval Air Station, employing over 900 civilian and 3,300 military personnel. These two defense facilities, located within several miles of each other, support nearly $700 million in earnings. This represents 3% of all Maine income, and more than one-half of all Maine defense-dependent earnings.

Maine's defense-dependent employment is concentrated in shipbuilding and related enterprises.

Maine's two biggest defense-related enterprises, from an economic perspective, are Bath Iron Works and Portsmouth Naval Shipyard. Combined they provide some 15,000 Maine residents with some of the highest paid employment in the State. Consequently, the State's defense dependency is concentrated in shipbuilding and related activities. In an environment of defense cut-backs and with the dominance of small and medium-sized firms, Maine's economy will be hard pressed to replace a significant number of shipbuilding jobs lost to defense cuts, with jobs of similar skill types or wage levels. The remainder of Maine's defense-dependent jobs are distributed across industries ranging from machinery, metal products and electronics to retail and wholesale trade, medical services and construction.

Defense reductions have already had an impact on Maine and future reductions will pose significant challenge to Maine businesses, workers and communities:

Many Maine workers and communities have already been adversely affected by cutbacks in defense spending. Twenty-five percent of the job losses associated with the closure of Pease Air Force Base in 1991 were felt in Southern York County. Brunswick Naval Air Station has recently reduced its military personnel by 300. The U.S. Air Force has essentially shut down the Over-the-Horizon Backscatter Radar Facility at Bangor, eliminating nearly 500 jobs in the Bangor area.

Maine firms serving prime defense contractors outside of Maine are beginning to feel the reverberations of defense cuts already plaguing large contractors in Southern New England. National Semiconductor in South Portland eliminated 150 defense-related jobs. Mid-State Machine in Winslow Maine has eliminated 50 to 60 jobs as a result of cutbacks at a prime contractor outside the State. Fiber Materials, Inc. in Biddeford has cut nearly 150 jobs around the State as a result of defense cutbacks.

Even larger reductions face Maine employers and workers in the next several months and years. Bath Iron Works continues an announced work force reduction totaling 2,500 through mid-1992. The Portsmouth Naval Shipyard has implemented a reduction-in-force that will reduce its 8,000 person work force by 1,500 by April of 1992. Finally, Loring Air Force Base has been slated for closure by September 1994, taking with it 8,500 jobs in Aroostook County.

By the end of 1991, Maine had lost 5,000 jobs added by the defense build up. This is accounted for by the loss of 2,500 jobs at BIW since 1990 and losses at other defense contractors. In addition to the losses associated with the build-up, Maine has lost another 2,000 direct and indirect defense jobs associated with downsizing of military facilities. By 1994, with the closure of Loring AFB, Maine will have lost 20% of its peak defense-dependent employment of 63,000 in 1989.

In the present economic environment any job losses associated with defense cuts are difficult, if not impossible to absorb. Over the longer term, the Maine economy will be able to absorb modest defense cuts. However, significant reductions in any one of Maine's major defense enterprises will impose a severe burden on the State's economy.

These job losses, painful at any time, come in the midst of a State and regional economic downturn. Since 1989, the Maine economy has experienced a steady decline in employment across all sectors. Between 1989 and 1991 the State's unemployment rate has nearly doubled as 33,000 jobs have been lost. Employment conditions in neighboring New England states are even more severe. Current forecasts indicate that it Maine will not recoup these losses before 1995.

Over the longer term, economic growth in Maine is expected to resume at a pace much slower than was experienced in the decade of the 1980's. In this environment additional large

and/or precipitous cutbacks at any of Maine's larger private or public defense facilities will place Maine's long-term economic health at serious risk.

Maine firms have begun to take steps to broaden their market base beyond defense-related customers.

Maine firms have made concerted efforts to reduce their dependency on defense dollars. According to a survey of Maine metal products companies, 60% of Maine metal firms make no sales to the military. Of the 40% that do, 70% make less than 25% of their sales to the military. A preliminary assessment of Maine's defense dependency indicates that neither machinery or electronics businesses in Maine appear to have a significant dependence on military sales. Finally, BIW has broadened its activities beyond defense procurement to include international consulting, and is actively pursuing civilian alternatives to naval vessel production.

Some Maine communities have begun the process of responding to Defense reductions.

In response to current or potential defense spending cuts citizens in some Maine communities have begun the process of planning for defense realignment. Eliot, Kittery, York and South Berwick have established the KEYS Coalition to respond to the closure and reuse of Pease Air Force Base in nearby Newington/Portsmouth, New Hampshire. The Brunswick Area Conversion Task Force has begun to examine the potential joint use and/or reuse of Brunswick Naval Air Station. Business people in the Biddeford-Saco area have begun to strategize a response to declining defense contracts to area businesses. Individuals in the mid-coast area have taken the initiative to examine defense issues and their implications for their regional economy, and the Maine Peace Economy Project is working to help communities and businesses across the State to recognize their defense dependency and work to reduce it.

The communities around Loring Air Force Base have joined with the County and State governments to create the Loring Readjustment Committee. This group will develop reuse options for Loring upon its closure in 1994 and negotiate the terms of transfer of the facilities at Loring to civilian use.

The Governor's Defense Task Force, through its EDA Title IX grant, is supporting multi-jurisdictional defense planning efforts in York County, the Bath/Brunswick region and the Androscoggin Valley region.

The nature of defense realignment over the next few years may offer some opportunities for Maine.

While their negative impacts will be severe for several years, some aspects of defense realignment offer some opportunities for the Maine economy. Reductions in the number of armed forces personnel will accelerate the re-patriation of workers to the Maine labor force with excellent training and G.I. Bill benefits. Federal commitment to cleaning up environmental hazards at closing military bases offers an opportunity to expand Maine's environmental

hazards at closing military bases offers an opportunity to expand Maine's environmental industries and redirect the skills of Maine's suffering construction industries. Finally, the potential and real impacts of defense cuts has begun to serve as a catalyst for joint community development initiatives among Maine towns and an impetus for new product and market development for Maine firms.

The State of Maine can adopt an array of strategies to address the challenges and opportunities associated with defense realignment.

A comprehensive State strategy should help communities build development capacity, maximize the possibility of re-employment of defense-dependent workers, and assist Maine firms reduce their defense dependency.

The Governor's Defense Task Force will develop program proposals designed to encourage and assist development capacity building in at-risk regions. Such programs could incorporate multi-jurisdictional community & economic development planning; assist in identifying economic development infrastructure needs, and avenues of assistance; and facilitate contingency DOD facility re-use planning.

Strategies to maximize the possibility of re-employment of at-risk workers in advance of actual cut-backs must recognize that most at-risk workers have relatively high level of skills and education. Thus, they will need either a new employer in a similar industry, the ability to start their own business, or the ability to move into a new occupation with comparable pay. Such strategies should be designed to broaden the educational level of at-risk workers; encourage and assist the expansion of Maine firms utilizing the skills of defense-dependent workers and the services of other defense-dependent firms.

Finally, harmful impacts of defense cutbacks can be best mitigated by helping Maine firms reduce their reliance on military spending. The Task Force will examine ways to tailor exiting programs to address the special needs of defense-dependent firms. In addition, new mechanisms will be explored to help Maine firms acquire the technology, training and financing required to undertake effective conversion strategies.

3. MAINE'S DEFENSE DEPENDENCY

A. Defense Spending and the Maine Economy

During the 1980's, the flow of federal defense-related dollars became an increasingly important component of the Maine economy. In fact, direct Defense Department spending in Maine rose from only 3% of gross state product in the early 1970's (averaging $146 million annually), to nearly 7% by the end of the 1980's (an average of nearly $1 billion per year), as shown in Figure 1. Virtually all of this growth, 81%, is attributable to defense procurement, of which Bath Iron Works has accounted for over 90%. Federal defense wages and salaries, reflecting the number of federal civilian and military personnel, have experienced much slower growth, as shown in Figure 2,

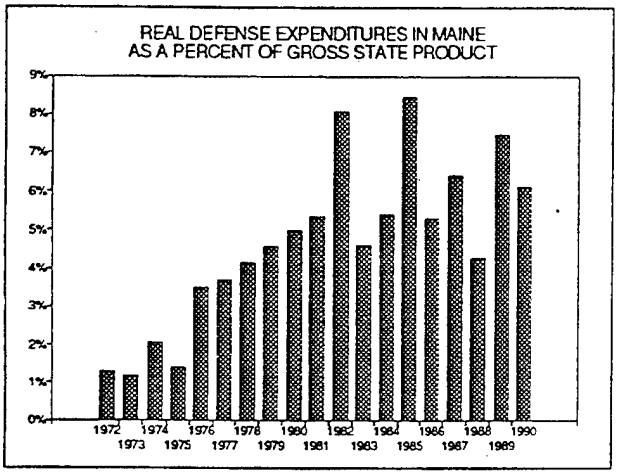


Figure 1

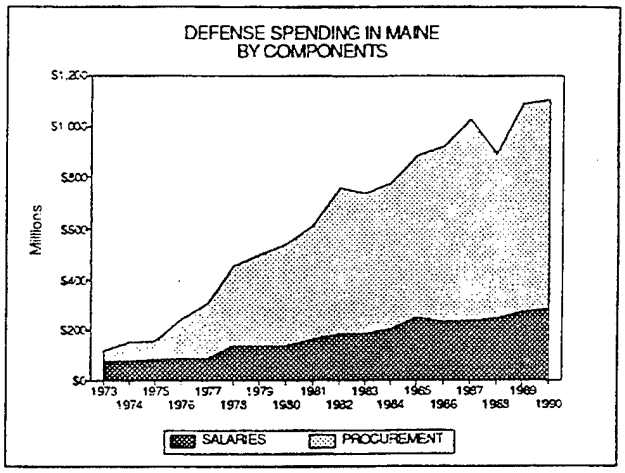


Figure 2

Gauging the contribution of defense spending to the Maine economy is a complex task. A traditional input/output approach to economic impact analysis (estimating the direct and indirect jobs needed to fulfill a given level of defense demand) suggests that 62,885 jobs and $1.3 billion in earnings in Maine were directly or indirectly supported by defense-related activities in 1989. By this measure fully 8% of all Maine jobs and 10% of total earnings are dependent, either directly or indirectly, upon meeting the defense needs of the United States. The larger share attributable to defense-related earnings in Maine reflects the relatively high wages provided many defense-dependent workers in the State. Table 1 offers an estimate of the employment and earnings contributions of defense spending in Maine at its peak in 1989.

In fact, these estimates under-represent the level of economic activity in Maine supported by defense spending. Each of the major defense facilities are the predominant actor in Maine's relatively small and fragile rural economies. Consequently, their loss would not only eliminate the majority of well-paying jobs in their regions, but would undermine the critical mass of the

regional economies they support. The closure of Loring AFB, for example, threatens to raise the costs of utilities and government services to remaining businesses, diminish property values and the viability of the Presque Isle Airport. Similar effects could be expected with the loss of any of Maine's major defense facilities.

TABLE 1
ECONOMIC IMPACT OF DEFENSE SPENDING IN MAINE: 1989
(Source: Maine State Planning Office)

FACILITY	DIRECT EMPLOYMENT CIVILIAN	DIRECT EMPLOYMENT MILITARY	INDIRECT EMPLOYMENT	TOTAL	EARNINGS(MIL)
BRUNSWICK NAS	900	3,000	1,700	5,600	$160
LORING AFB	900	3,300	3,600	7,800	$168
PORTSMOUTH NSY#	8,000	**	3,300	11,300	$206
NATIONAL GUARD*	525	3,900	885	5,440	$86
OTHER DoD	300	4,800	1,610	6,710	$138
BIW	11,400	**	7,700	19,100	$524
OTHR PRIV FIRMS	3,800	0	3,265	7,065	$166
TOTAL	25,825	15,000	22,060	62,885	$1,307
Percent of Maine Total				8%	10%

4,500 Maine residents. Earnings exclude those of non-Maine workers.
* 300 full-time, 3,600 part-time.
** Military included under Other DoD.

B. Employment Impacts of Recent and Impending Defense Cutbacks in Maine

Over the last two years the Maine economy has suffered the impact of defense cutbacks. Reductions have caused lay-offs at private defense contractors like Bath Iron Works, National Semiconductor and Mid-State Machine. Federal installations in Maine have also experienced reductions in force. In fact, at least 2,200 civilian Maine jobs have been lost to defense cuts during 1990 and 1991, and more are scheduled for the near future.

By the middle of 1992, anticipated reductions by BIW and Portsmouth Naval Ship Yard will bring Maine job losses to to 4,750, and the closure of Loring Air Force Base in 1994 will add an additional 1,000 federal civilian jobs to these losses. More than 4,000 military personnel (3,300 from Loring AFB) and associated payroll will be lost as well. Table 2 offers an estimate of recent and announced defense losses.

By the end of 1991, Maine lost 5,000 jobs added by the defense build up. This is accounted for by the loss of 2,000 jobs at BIW since 1990 and losses at other defense contractors. In addition to the losses associated with the build-up, Maine has lost another 2,000

direct and indirect defense jobs associated with downsizing of military facilities. By 1994, with the closure of Loring AFB, Maine will have lost 20% of its peak defense-dependent employment of 63,000 in 1989.

TABLE 2
RECENT AND IMPENDING DIRECT DEFENSE-RELATED JOB LOSSES AS OF NOVEMBER 1991

Activity	Civilian Jobs	Military Jobs
BIW	2,500 (by mid-'92)	
Loring AFB	1,000 (by Sept. '94)	3,300 (by Sept. '94)
Portsmouth NSY	600 (by March '92)	
National Semiconductor	200	
Fiber Materials, Inc.	150	
Digital	100	
Saco Defense	100	
OTH-B	70	300
Brunswick NAS	50	310
Mid-State Machine	30	
TOTAL	4,750	3,910

C. The Character of Defense-Dependent Employment in Maine

Essentially, defense spending supports three layers of employment in Maine: direct, intermediate and induced defense-dependent jobs. ***Direct employment*** comprises military and civilian personnel at Maine-based military installations, and employees of prime contractors providing goods or services directly to a unit of the Defense Department. Maine's military installations directly employed approximately 7,200 Maine civilians and 15,000 military personnel in 1989, as shown in Figure 3. Among the federal civilian jobs in Maine in 1989 were 8,000 employees of Portsmouth Naval Shipyard (about 4,500 were Maine residents), with approximately 2,900 employed at Loring Air Force Base, Brunswick Naval Air Station and a number of smaller facilities.

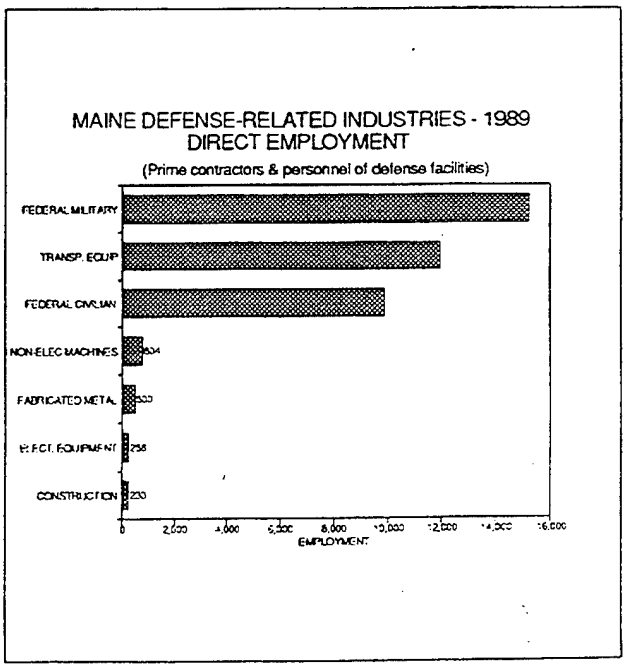


Figure 3

TABLE 3
DISTRIBUTION OF DEFENSE-DEPENDENT EMPLOYMENT IN MAINE

INDUSTRY	TOTAL	(A) DIRECT	(B) INTRMD INPUTS	(C) LOCAL CONSMP	% OF DEFENSE	% OF INDUSTRY
FEDERAL MILITAY	15,000	15,000	0	0	28%	100%
TRANSPORTATION EQUIP	12,276	11,946	330	0	21%	84%
FEDERAL CIVILIAN	10,900	10,900	0	0	13%	68%
RETAIL(NON-REST.)	3,183	58	95	3,393	6%	3%
MEDICAL SERVICES	2,294	23	81	2,420	4%	5%
STATE & LOCAL GOVT	2,126	0	173	2,150	4%	3%
EATING & DRINKING PLACES	1,776	0	737	1,220	4%	5%
MISC. BUSI. SERV.	1,302	0	1,381	45	2%	4%
ELECT. EQUIPMENT	1,209	258	1,032	12	2%	13%
FABRICATED METAL	1,150	500	645	4	2%	37%
WHOLESALE TRADE	1,110	0	777	450	2%	4%
MISC. PROF. SERV.	1,040	0	922	225	2%	6%
CONSTRUCTION	894	238	224	432	2%	2%
NON-ELEC MACHINES	845	804	25	15	2%	16%
NON-PROFIT ORG.	741	9	53	741	1%	4%
BANKING	631	0	389	277	1%	7%
PER. SERV. & MISC. REPAIR	561	30	151	420	1%	3%
REAL ESTATE	383	0	90	325	1%	2%
PRIVATE HOUSEHOLD	335	0	0	370	1%	4%
INSURANCE	335	0	125	210	1%	3%
HOTELS	326	0	236	111	1%	2%
EDUCATION	302	0	21	281	1%	3%
AMUSE.&RECREATION	273	0	35	237	1%	3%
AUTO REPAIR/SERVICE	254	0	96	158	0.4%	3%
PUBLIC UTILITIES	185	4	109	73	0.4%	3%
FOOD PROCESSING	168	0	32	136	0.3%	2%
PRINTING	150	0	119	31	0.3%	2%
INSTRUMENTS	135	50	81	3	0.2%	0%
TRUCKING	134	0	92	42	0.2%	1%
CREDIT&FINANCE	124	0	42	82	0.2%	3%
COMMUNICATION	119	0	64	55	0.2%	2%
LUMBER	93	0	82	11	0.2%	1%
STONE,CLAY & GLASS	52	0	47	4	0.1%	2%
LOCAL/INTERURBAN TRANSP.	49	0	29	21	0.1%	2%
APPAREL	48	0	10	38	0.1%	1%
LEATHER	40	0	5	35	0.1%	3%
AIR TRANSP.	35	0	22	13	0.1%	3%
PAPER	33	0	24	9	0.1%	2%
RUBBER	32	0	27	4	0.1%	1%
FURNITURE	26	0	8	19	0.1%	2%
MOTION PICTURES	26	0	11	15	0.1%	3%
MISC. MANUF.	21	0	6	15	0.1%	1%
AGRI/FOR/FISH SERV.	20	0	11	9	0.1%	1%
OTHER TRANSP.	14	5	5	4	0.1%	5%
TEXTILES	14	0	7	7	0.1%	2%
PRIMARY METALS	14	0	14	0	0.1%	2%
RAILROAD	8	0	6	2	0.1%	1%
CHEMICALS	3	0	2	1	0.1%	1%
TOTAL	62,885	39,825	8,776	14,284	100%	8%

Reading this table: *Direct* refers to workers employed by prime contractors or defense facilities. *Intrmd inputs* refers to jobs associated with providing goods or services to prime contractors or facilities. *Locl Consmp* refers to jobs supporting the local consumption of direct and intermediate workers.

Prime contractors provide the second component of direct defense-dependent employment. Bath Iron Works dominates this category, accounting for 90% of procurement spending in Maine. It is joined by Saco Defense, Fiber Materials, Inc., Crowe Rope and an array of metals, electronics and other firms. Other Maine businesses that rely, to varying degrees, on military procurement include construction firms, business services, fuel dealers, and maintenance and laundry services that serve Maine's military bases. Direct defense-dependent employment in Maine in 1989 is estimated at over 39,825 as shown in column A of Table 2, and account for 53% of Maine's defense-dependent employment.

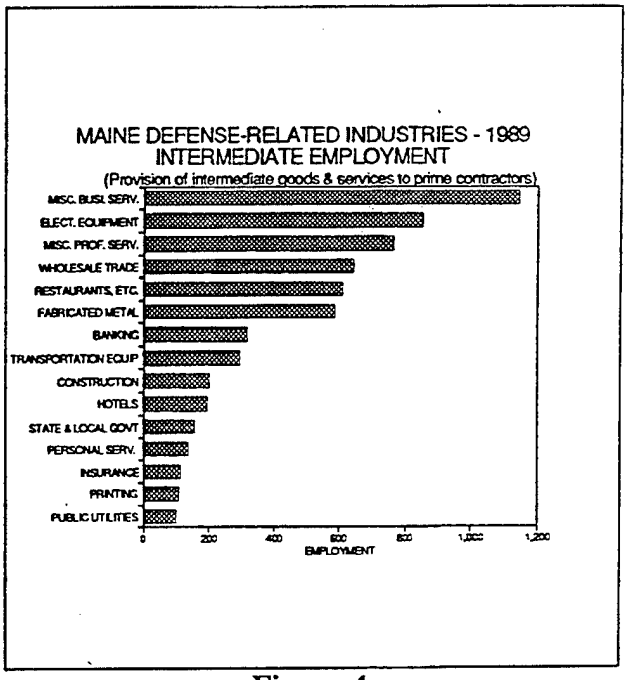


Figure 4

Intermediate employment is provided by firms producing inputs to prime contractors to use them in providing final defense products. Comprising 17% of defense-dependent jobs, this group includes the many businesses that provide an array of goods and services, from metal products to repair services, to Bath Iron Works and other prime contractors in and outside the State. Among Maine employers which have provided intermediate defense goods or services are Pratt & Whitney, National Semiconductor, metal products firms, business services, construction companies, wholesalers, and other service firms. A precise count of Maine's intermediate defense-dependent employment awaits further research, but an initial estimate places this figure at about 8,800 workers, as shown in column B in Table 3.[1]

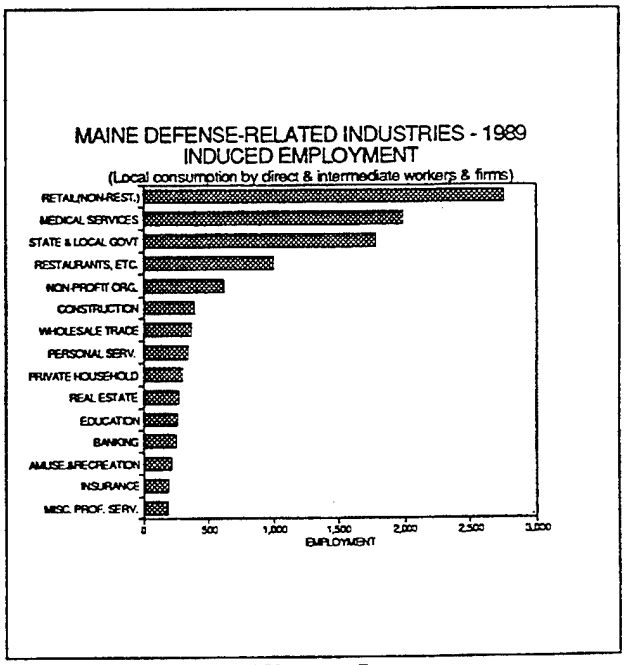


Figure 5

[1] Efforts to determine the level of Maine employment supported by prime contractors outside of Maine are among the on-going projects of the Task Force.

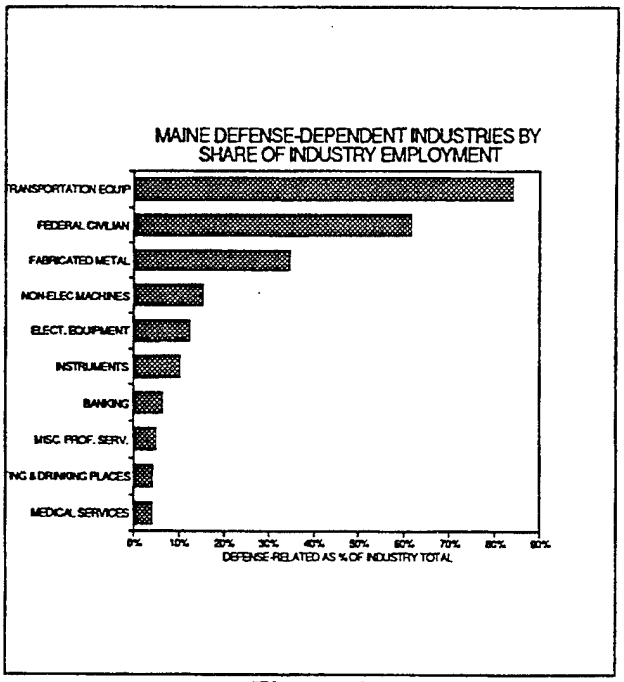


Figure 6

Finally, ***induced employment*** refers to those jobs supported by the purchase of goods and services by people employed in the direct and intermediate levels. This group consists largely of wholesale and retail trade, restaurants, health services, State and local government and other consumer industries as seen in Figure 5. It is estimated to number 14,284, as seen in column C in Table 3. Representing 29% of all defense-dependent jobs, the large number of induced jobs reflects the spending of both civilian defense-dependent workers and military personnel.

Defense spending touches each of Maine's industries to varying degrees. Among the Maine industries with the largest **proportion** of defense-dependent jobs, transportation equipment, federal government, metal products, machinery and electronic equipment top the list, as shown in Figure 6. In addition, business service industries are also among Maine's most defense-dependent, reflecting the many intermediate and induced jobs supported by direct defense activities.

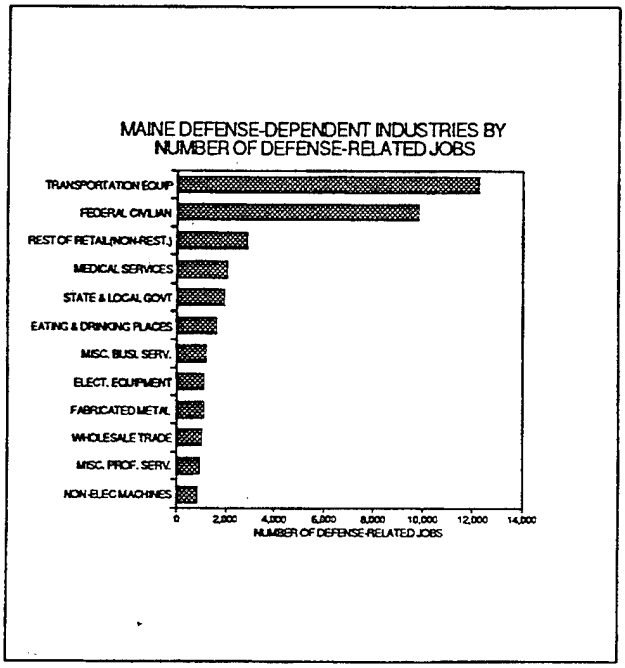


Figure 7

Many of these same industries also employ the largest **number** of defense-dependent workers as do retail trade, medical services and state and local government, as seen in Figure 7. This mix reflects both the relatively high level of consumption supported by the high-paying defense jobs and the labor intensity of the trade and service sectors.

D. Maine's Principal Defense Facilities

Maine's long tradition of participating in this nation's defense has been based largely upon its coastal location and its reputation for shipbuilding. In fact, shipbuilder Bath Iron Works, Portsmouth Naval Shipyard, Brunswick Naval Air Station and Loring Air Force Base account for 26,000 defense jobs, representing over 64% of all the direct defense employment in Maine. Maine has also been home to a small but growing number of largely high-technology defense-related firms. Figure 8 displays the location of military facilities and defense contractors in Maine. Tables 3 and 4 identify selected Defense Department prime contractors in Maine and principal military facilities.

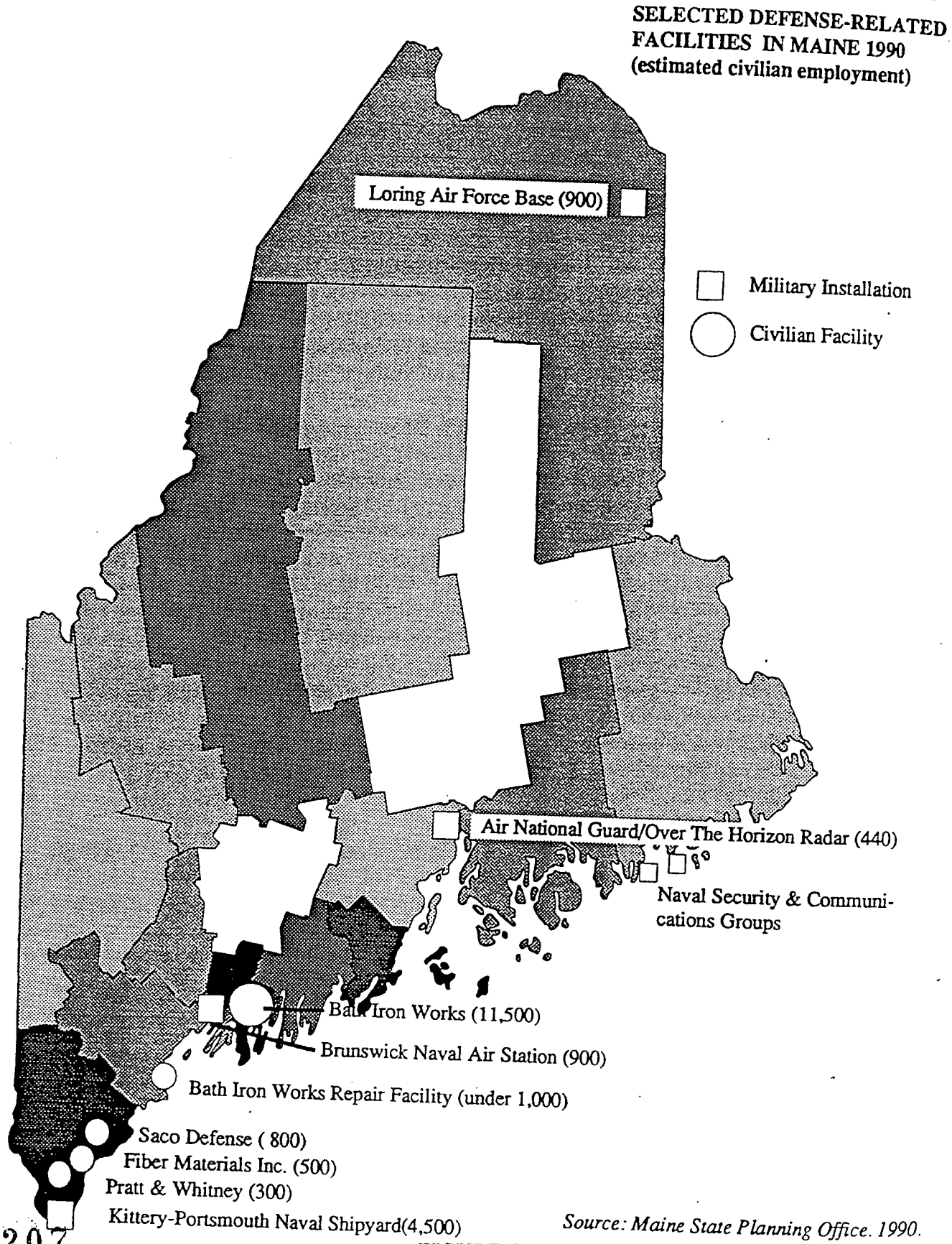
TABLE 4
SELECTED DEFENSE PRIME CONTRACTORS IN MAINE

COMPANY	LOCATION	TYPICAL ANNUAL CONTRACT
Bath Iron Works	Bath	$730 million
Saco Defense	Saco	$35 million
Fiber Materials, Inc.	Biddeford	$30 million
Howell Laboratories	Bridgton	$7.9 million
E.C. Jordan	Brunswick	$5.3 million
H.E. Sargent	Old Town	$4.2 million
Frank J. O'Hara	Rockland	$2.4 million
Andrew Crowe & Sons	Warren	$1.9 million
Mid-State Machine	Winslow	$0.5 million

TABLE 5
PRINCIPAL MILITARY INSTALLATIONS IN MAINE

FACILITY	LOCATION	ANNUAL SPENDING
Portsmouth Naval Shipyard	Kittery	$170 Million*
Loring Air Force Base	Limestone	$130 Million
Brunswick Naval Air Station	Brunswick	$108 Million
Maine Air National Guard	Bangor	$33 Million

* Estimate of amount spent in Maine. Total spending in 1989 was $357 million.



Source: Maine State Planning Office. 1990.

FIGURE 8

BATH IRON WORKS

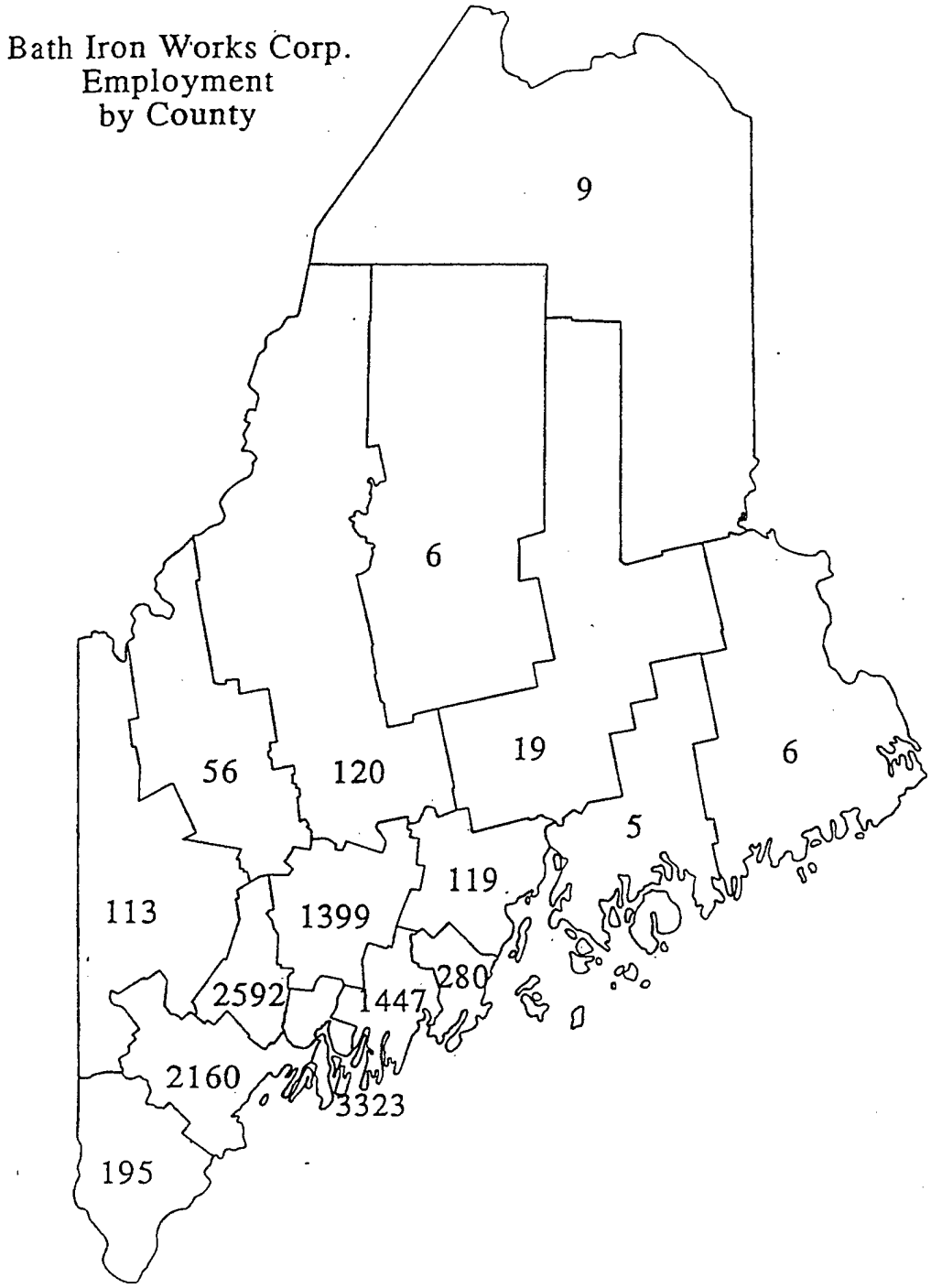
Bath Iron Works (BIW) is Maine's single largest defense activity, and its largest private employer. BIW's 10,000 workers earn wages close to the national industry average and more than the State average wage. Currently the lead shipyard in the Navy's AEGIS destroyer program, BIW has seen extraordinary growth since the late 1970's, adding over 7000 jobs in Maine during the 1980's.

A major component of the State and regional economy, BIW provides an annual payroll of over $300 million to workers largely from communities in Sagadahoc, Androscoggin, Cumberland, Lincoln and Kennebec Counties, as shown in Figure 8. In addition, BIW purchases approximately $60 million worth of goods and services annually from Maine firms. As a result, the defense work at BIW supports an additional 7,700 jobs across the State and generates $524 million in personal income.

While significant, these estimates underestimate the role that BIW plays in supporting the economic and public infrastructure of mid-coast Maine. As a large purchaser of electricity from Central Maine Power, for example, its absence from the customer base would dramatically increase the cost of electricity to all other users. Similarly, the availability and cost of health, education and other public services to residents of the mid-coast region are directly affected, as well, by the presence of BIW in the Bath-Brunswick area.

BIW reached a peace time employment peak of 11,950 in 1990, driven by the U.S. naval build-up and a confluence of contract work during the last years of the 1980's. The outlook, however, is for a much lower level of defense work over the coming decade. Original procurement plans for five ships per year have been revised downward. Consequently, BIW has announced that it will reduce its work force by up to 2,400 jobs over the next 2 years. The future of BIW as a defense contractor rests with decisions by the Department of Defense regarding the character of U.S. national security posture and the size and composition of America's naval fleet needed to accommodate it.

Officials at BIW have concluded that they must build at least two ships per year to remain commercially viable. At present, BIW's position as lead builder of the AEGIS destroyer and the inclusion of 4 vessels in the Bush Administration FY1993 budget bode well for the shipbuilder in the short term. However, longer-term prospects rely mightily upon either the continuation of the commitment to a class of warship built by BIW, or the success of the firm in diversifying into commercial markets. Strong international competition in commercial vessel production and foreign subsidies present serious challenges to U.S. commercial shipbuilding. However, a strengthening in future demand for commercial vessels and expansion into alternative products offers prospects for long term viability of Bath Iron Works.



Source: Bath Iron Works Corp.

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FIGURE 9

LORING AIR FORCE BASE

Loring Air Force Base, located in Limestone, Aroostook County, will be closed by September 1994 pursuant to the recommendation of the 1991 Base Closure and Realignment Commission. This decision will have devastating social and economic impacts on the communities of Aroostook County that will reverberate across the State. A Loring Readjustment Committee has been assembled by local and State officials and has begun the enormous task of planning for Loring's closure and eventual reuse and is developing a regional economic adjustment strategy.

Loring AFB has been home to the 42nd Bombardment Wing of the U.S. Strategic Air Command. It is the single largest employer in Aroostook County, providing 4019 jobs (including 3496 military). Base military and civilian personnel combined represent 10% of total employment in the County. Moreover, wage levels at Loring are well above the county average. Consequently, the base payroll accounts for 19% of Aroostook County wage & salary income.

Loring has played a critical role in supporting the Northern Maine economy. Total base expenditures in fiscal year 1989 were $129 million. This included payroll, construction, services, materials, equipment and supplies. These expenditures included $89.6 million in military and civilian payroll, $16 million in construction projects, $14 million for services, and an additional $9.3 million for materials, equipment and supplies. The annual operation of Loring Air Force Base, including direct military and civilian jobs, payroll, and other base expenditures, supports a total of 7828 jobs in Maine, generates $168.3 million in personal income, and $286.3 million in business receipts. Of these, 6200 jobs, $129.5 million in personal income and $169.4 million in business sales are located in Aroostook County. In addition, the Base plays a large role in the provision of education, health care and fire fighting services to surrounding communities.

The citizens of central Aroostook County and Maine State government have joined together to prepare for the final closure of Loring AFB in September 1994. A 14-member committee has been appointed to marshall the State, federal and local resources available to minimize the impact of base closure, to find suitable alternative uses for the facilities and to develop a economic adjustment strategy for the region. The process now underway in Aroostook County will be a multi-year effort that will determine how Maine will ultimately be affected by the loss of this major economic actor.

PORTSMOUTH NAVAL SHIPYARD

Portsmouth Naval Shipyard in Kittery Maine employed approximately 8,000 civilian workers in 1989, just over half of whom are Maine residents. In addition to the $140 million Maine payroll, the shipyard purchases approximately $8 million in goods and service from Maine firms annually. It is estimated that in addition to more than 4,000 direct jobs, Portsmouth Naval Shipyard supports an additional 3,300 jobs in Maine, producing a total of $240 million in earnings. Like any large employer, the shipyard is a crucial component of its regional economy,

providing the critical mass needed to support the current level of cost-effective and quality public services to residents throughout southern York County.

Like the other seven public shipyards operated by the Navy, Portsmouth has been facing the pressures of declining workloads as maintenance budgets are reduced and systems are mothballed. In fact, the Portsmouth shipyard has begun the process of downsizing its workforce by approximately 1,450 jobs between 1991 and early 1992.

The longer term outlook for Portsmouth Naval Shipyard, like all Maine defense facilities, remains uncertain. The yard was recently tapped by Secretary of Defense Cheney and Navy Secretary Lawrence Garrett as the lead shipyard for overhauls of Los Angeles class submarines which would appear to bolster its position as a long-term asset to the U.S. Navy. Recent closure actions at other east coast naval shipyards may also offer a measure of security to Portsmouth. Nonetheless, defense priorities will continue to be shaped and reshaped, placing at risk the economic activities dependent upon this facility.

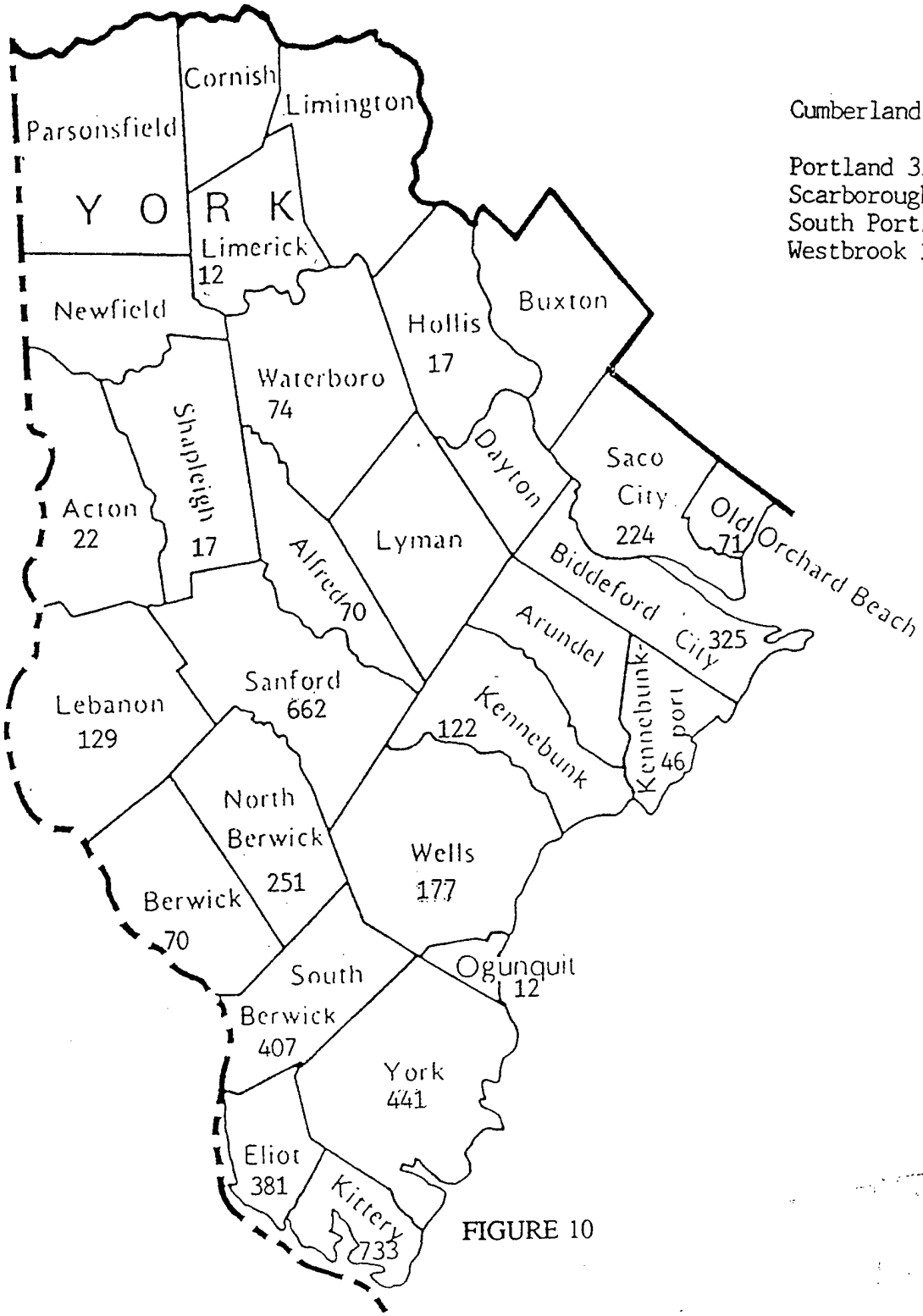
Brunswick Naval Air Station

Brunswick Naval Air Station (NAS Brunswick), located in Brunswick, Sagadohoc County, Maine is home of Patrol Wing FIVE, one of two Patrol Wings on the Atlantic Coast. Re-activated in 1951 in response to a growing Soviet submarine threat, Brunswick's principle task is anti-submarine warfare. They have also been called upon to perform anti-submarine surveillance, mine warfare, search and rescue and other missions.

NAS Brunswick employs 3,000 military and 900 civilian personnel. In 1989 NAS Brunswick funneled over $130 million into the local economy. This included $118 million in payroll, $11 million in construction contracts and $13.5 million in the purchase of goods and services from local businesses. Through its activities it supports an additional 1,700 jobs in the Bath-Brunswick area. In addition, the activities and personnel associated with NAS Brunswick are a integral part of the quality of life of the surrounding communities.

NAS Brunswick faces two more rounds of base closure and realignment assessments, in 1993 and 1995. NAS Brunswick is expected to gain an additional squadron in 1993 as a result of the closure of a west coast Naval Air Station. However, the shape and pace of change in superpower relationships remain nebulous, as do America's evolving national security priorities. Consequently, it is difficult to assess how BNAS Brunswick will fare in this process in the coming years. Efforts are underway by businesses and communities surrounding the Base to examine the economic importance of BNAS Brunswick to the local economy, explore joint use options and to prepare for future base closure proceedings.

EMPLOYMENT OF PORTSMOUTH NAVAL SHIPYARD
BY TOWN IN YORK COUNTY: 1990



Cumberland County:

Portland 35
Scarborough 14
South Portland 20
Westbrook 12

FIGURE 10

Other Direct Defense-Related Businesses

A number of Maine businesses conduct a significant amount of business with the Department of Defense either in weapons and supplies procurement or through Maine's military installations. Saco Defense, Fiber Materials, Inc., Keyes Fiber Company, Andrew Crowe & Sons, Fibre Materials, Inc., Howell Laboratories and other prime contractors produce components or complete weapons systems and other supplies and services for the U.S. Department of Defense. Combined, the defense-related employment of these firms is estimated at nearly 3,000.

Also notable are a number of Maine subcontractors working for out-of-State defense contractors. This group includes producers of metal products, machinery and electronic components. National Semiconductor in South Portland and Mid-State Machine in Winslow are among Maine businesses that have recently relied, in part, upon work with defense-related projects. Less than 20% of the jet engine work conducted by Pratt & Whitney Aircraft Division in North Berwick is related to defense contracts of its parent, United Technologies in Connecticut. Other Maine businesses provide equipment, supplies, construction and other services to Maine's military installations. Among this category are Portland Valve, Brunswick Coal & Lumber, Cyr Construction and numerous other small and medium-sized firms around the State.

The outlook for Maine's subcontractor segment is mixed. Many of these firms have already suffered job losses related to defense cutbacks. At least 1,400 jobs have been lost at these other defense-dependent firms around the State since 1990. As they cover the gamut of U.S. defense activity, this segment of Maine's defense-dependent economy is likely to experience some level of continuing decline in demand. The fate of individual firms depends upon the continuation of the weapon systems or installations upon which they rely and the success of their efforts to reduce their dependency upon defense-related contracts.

Other Federal Military Activities

Pease Air Force Base: Pease Air Force Base in southeastern New Hampshire on the Maine/New Hampshire border, was the first base to be closed pursuant to the Base Closure and Realignment Act of 1988. By the beginning of 1991, operations had essentially ceased, eliminating over 1,000 civilian jobs, 3,460 military jobs and a payroll of $109 million. Including dependents, total base-related population numbered about 10,700. In addition, the base added another $35 million in the purchase of goods, services and construction contracts.

The initial impact of this closing, coming in the midst of a regional downturn and national recession, was to further exacerbate economic difficulties on both sides of the border. The economic impact, in addition to the continuing uncertainty about the re-use of the facility, has generated concerns about the quality of future economic growth in neighboring Maine communities.

Maine National Guard: The Maine Army and Air National Guard maintain a considerable presence in the State. These units include 300 active duty military and 525 full time civilian personnel and over 3,600 traditional Guard personnel (part-time). Combined these activities bring over $46 million in annual earnings to the Maine economy. The direct and indirect impact of the activities of the Maine National Guard support an additional 600 jobs across the State.

The single largest on-going operation of the Maine National Guard has been the Air National Guard (ANG) 101st Air Refueling Wing headquartered at Bangor International Airport. The 101st Air Refueling Wing includes 113 full-time military and 380 federal civilian personnel in addition to 800 traditional Guard members (part-time), generating over $20 million in earnings each year. Of this, the traditional Guard accounts for nearly $7 million annually. The recent addition of the Over-The-Horizon Backscatter Radar facility (OTH-B) added 329 full-time military and over 200 civilian personnel to the ANG operation in Bangor.

Activities at Bangor have begun to feel the effects of changing defense priorities. Projected downsizing of the military, and redistribution of available resources has caused the Air Force to significantly reduce the scope of operation at the OTH-B radar facility. As many as 200 direct civilian jobs associated with the facility have been eliminated.

Maine's Army National Guard is also facing significant reductions in force in 1993 totalling 758 soldiers, including about 50 full-time positions. This will represent a reduction of 26% in the Army National Guard in Maine and is part of a nationwide downsizing of the U.S. armed forces.

The future role of the National Guard in U.S. defense plans remains unclear. A growing emphasis on National Guard and Reserve roles in the Air Force should ensure relative stability or modest growth for the Maine Air National Guard. However, further restructuring of U.S. Army forces could result in a additional reductions in Army National Guard units and personnel in Maine.

Navy Security and Communications Facilities: The U.S. Navy operates two facilities in East coastal Maine. The Naval Security Group in Winter Harbor and the Naval Communications Unit in Cutler, while small, are important components of their small local economies. Employing about 600 military and civilian personnel, these activities are among the area's largest and highest paying employers. These facilities represent important components of U.S. military communications network. Consequently, their future seems to be relatively secure.

E. Conclusions

By varying degrees, Maine's economic defense dependency cuts across all Maine industries. However, the State's direct dependency is concentrated in a small number of facilities and firms, and three regions of the State. In fact, 17,700 or nearly 80% of all direct defense-related civilian jobs are with BIW, Loring AFB, NAS Brunswick and Portsmouth Naval Shipyard. However, these represent only 42% of all defense-dependent jobs. The majority of

Maine's defense-dependent jobs are spread among a large number of businesses that serve both civilian and military-related markets.

Not surprisingly, the geographic concentration of Maine's defense-dependency is in the three regions of the State that host large defense establishments. Aroostook County, the home of Loring Air Force Base, relies on the base to support one of every six jobs, and 12% of total income generated in the County. It is the County's largest single employer and accounts for 19% of its wages and salaries. The Bath-Brunswick Region is host to both Bath Iron Works and Brunswick Naval Air Station. These two facilities alone support over $1 billion in earnings, fully 8% of the State total. In fact significant economic impacts of BIW extend west into Androscoggin County and south into Cumberland County. Finally, York County is the location of Portsmouth Naval Shipyard, Saco Defense, Fiber Materials Inc. and other private defense sub-contractors. Moreover, its proximity to Pease Air Force Base in New Hampshire has already led to deleterious economic impacts within its borders.

The local and regional impact of defense spending reductions will be very substantial. In a state dominated by small and medium-sized businesses, defense-related activities become the principal economic actor in each of the regions in which they are located. Moreover, the diversity of Maine's defense-dependency suggests that some, if not all, segments of its defense economy is likely to be affected by the restructuring of national spending priorities for several years.

4. THE CAPACITY OF THE MAINE ECONOMY TO ABSORB REDUCTIONS IN DEFENSE SPENDING

A. The Maine Economy in the 1990's

While Maine has long hosted significant defense activity, the defense build-up of the 1980's added additional jobs to the Maine economy. Direct and indirect jobs associated with the military build up totaled 18,000 by 1989. Most were associated with the naval build up supported by Bath Iron Works. This largest of Maine employers added 7,400 jobs during the 1980's. Additional jobs were created at prime and secondary defense contractors, largely in southern Maine.

By the end of 1991, Maine lost 5,000 jobs added by the defense build up. This is accounted for by the loss of 2,000 jobs at BIW since 1990 and losses at other defense contractors. In addition to the losses associated with the build-up, Maine has lost another 2,000 direct and indirect defense jobs associated with downsizing of military facilities. By 1994, with the closure of Loring AFB, Maine will have lost 20% of its peak defense-dependent employment of 63,000 in 1989.

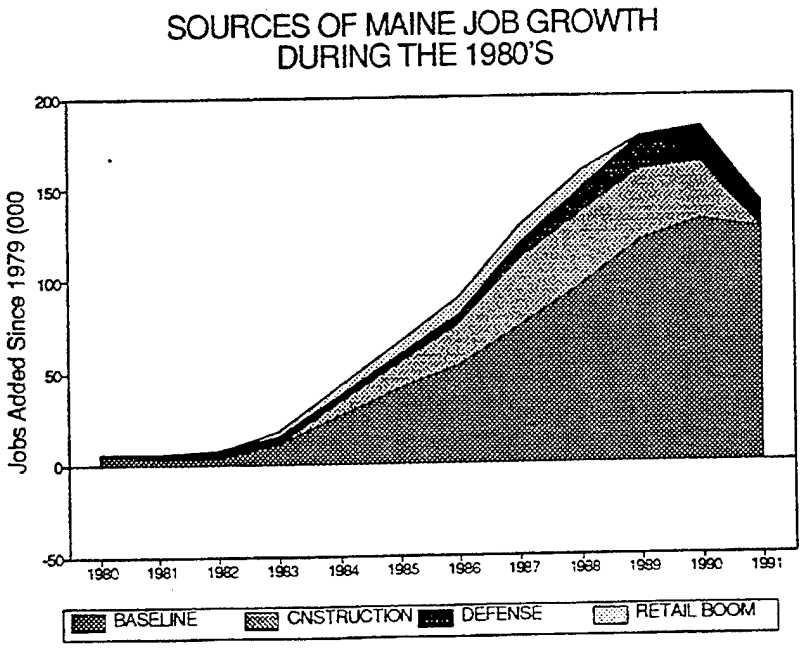


Figure 11

Unfortunately, defense cutbacks are not the only negative forces impinging upon the Maine economy today. The demographic surge that fueled rapid household formation, consumer spending and strong job growth in the last decade has slowed and will continue to do so over the next ten years. The New England economic renaissance driven by the defense build-up and the

computer and finance industries has dissolved into a quagmire of business declines and over-built real estate. Thus, in addition to the reversal of the defense build-up, Maine is experiencing the end of a construction and retail boom, as illustrated in Figure 11. A national recession has further exacerbated regional weakness, and recovery is expected to exceptionally slow. Consequently, defense cuts are hitting Maine in the midst of its worse economic downturn since the early 1980's, a downturn that is unlikely to be followed by vibrant recovery.

It will be exceptionally difficult for the Maine economy to replace defense-dependent jobs. During 1990 and 1991 Maine employment will have declined by 6%. Most recent job losses have been in construction, manufacturing and retail trade. Defense cutbacks have also contributed to this weakening in Maine's employment levels. By early 1992, over 4,000 Maine defense-related jobs will have been lost to spending cuts (about half of these will have come from BIW).

Despite current economic difficulties the Maine economy has experienced a qualitative improvement over the last 15 years. The economy that is carrying Maine into the 1990's is the culmination of a fundamental restructuring of the State's industrial base. This transformation has been characterized by the formation of new manufacturing industries as well as the revitalization of some of Maine's traditional industries. Maine's service sector, too, has gradually moved from a supplier of basic essentials to an array of activities servicing businesses and consumers in and outside the State.

Economic growth in Maine during the 1990's is expected to be more moderate than that experienced during the 1980's. The State Planning Office (SPO) predicts that over the decade job growth in Maine will slow to an average of about 1% per year, down from the 2.6% annual growth experienced during the 1980's. Significant additional defense cutbacks in Maine, such as the closure of another major facility, could dramatically alter even this modest growth forecast.

Beyond their statewide effects, the impact of defense spending cuts on individual workers, firms and communities will be severe. Like past industrial restructurings, the shift away from defense will be painful. The nature of job growth in Maine over the next several years will not necessarily occur in the occupations or locations held by current defense-dependent workers. Communities dependent upon defense workers, firms and facilities will be hard pressed to replace the tax base and level of service presently supported by defense spending. Firms that have long relied on the steady flow of defense dollars will find themselves seeking new customers in an increasingly competitive market place.

B. Other Economic Implications of Defense Reductions

A number of other economic dynamics of defense reductions are not taken into account in the analysis above. The analysis above offers no indication of the effect of defense cutbacks on the level, quality and cost of State and local public services. As noted earlier, BIW is among Maine's largest consumers of electricity and along with its workforce, support a high level of

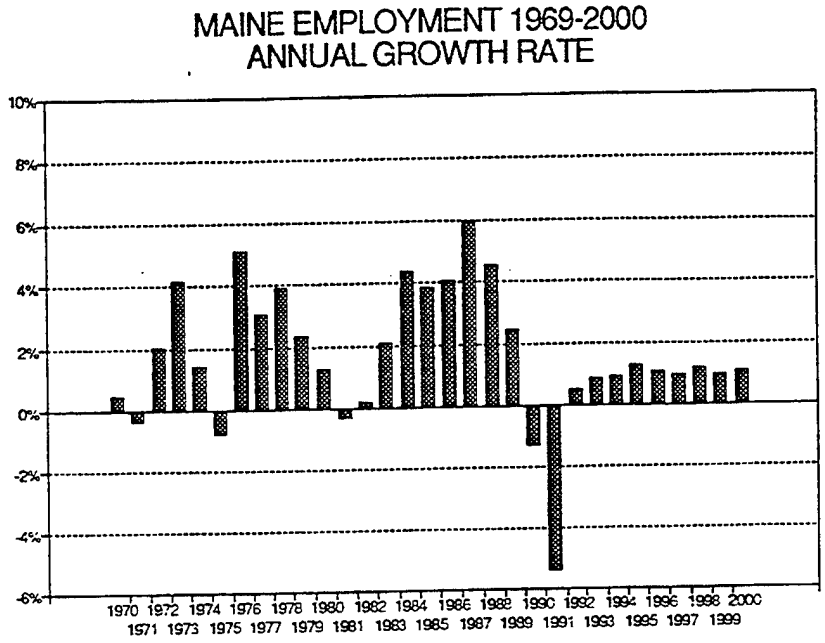


Figure 12

local public and private services, including health care, and provide an important share of State and local tax revenues.

On the other hand, Defense force reductions, will increase the number of Maine citizens returning to the State from the military with both skills and G.I Bill benefits. The Advisory Council on Education and the Military in Maine estimates that current force reduction proposals will increase the number of returning Maine service persons from the current 1300 per year, to 1800 per year, a 38% increase. This influx of trained workers with resources for further education offers to reduce the skill shortage that currently threatens Maine's long-term economic growth. Alternatively, these new entrants could further exacerbate already high unemployment.

Finally, Loring Air Force Base is on the National Priority List for Superfund clean-up. It is estimated that environmental clean up at Loring will cost up to $900 million. This major infusion of federal dollars offers an opportunity to strengthen Maine's environmental industries. In particular, this offers a chance to convert construction workers and firms, now suffering a severe recession, to an industry with strong growth potential.

C. Conclusions

During the last 20 years, Maine has advanced from a lethargic economy dominated by mature forest products, footwear, and textiles industries to a more diversified one. This economic restructuring, like the many throughout the State's economic history, was both painful and

beneficial. Some regions of the State still bear the scars of the declining footwear and textiles industries. Paper mill towns still struggle with the realization that a high school diploma no longer guarantees a high paying local job, and rural Maine, the home of much of our industrial past, contends with the locational implications of an economy dominated by non-manufacturing.

At the same time, Maine moved from 42nd in per capita income in 1979 to 29th by 1990 as low-wage employment was replaced by new, higher wage jobs. For each job lost in Maine's footwear, textiles and food processing industries during the 1980's, Maine added two to three higher paying jobs in health care, wholesale trade, insurance, business and professional services, and to expansions in defense-related industries.

The economic restructuring associated with reduced defense spending presents important differences from past restructuring. In some respects Maine's economy is better prepared to absorb the impacts of defense spending cuts than in the past. Higher incomes, greater industrial diversity and a more sophisticated business population should buffer some of the impacts of cuts in defense spending.

In addition, unlike past economic upheavals we have the benefit of precognition. While specifics are unknowable, we can estimate the approximate timing and potential character of defense cuts. This offers the opportunity to develop strategies to mitigate the impacts of defense spending cuts. However, the key to surviving defense spending cuts may well be their timing. If relatively gradual, spending reductions will allow Maine to develop the capacity to respond to their effects.

Nonetheless, the Maine economy will be hard pressed to replace the jobs and income lost to continuing defense cutbacks, given the depth of the current recession and the magnitude of defense-related losses to date. In the absence of a concerted mitigation and response program by Maine State government, businesses, workers and communities further defense cuts have the potential for prolonging and deepending Maine's economic downturn.

5. A DEFENSE REALIGNMENT RESPONSE STRATEGY FOR MAINE

The analysis presented here is a first step in understanding the role of the defense industry in the State's economy. Much more in-depth examination of the character of Maine's defense dependency is necessary. However, the insights of the Defense Task Force members and the information presented in this review highlight the essential components of a defense realignment response strategy for Maine. To respond effectively to the impacts of shifting defense priorities Maine State government, businesses, workers and communities must 1) develop the capacity to respond, in the short term, to imminent defense reductions; and 2) reduce their dependence on defense spending before severe reductions occur.

A. Short-term Impact Strategy

The focus of the short-term strategy development component will be to respond to defense-related layoffs that have already occurred or are imminent. The Rapid Employment Training Initiative (RETI) program administered by the Maine Department of Labor, offers a valuable model by which to implement an effective response. Taking a page from the RETI approach, and with the support of the EDA our short-term impact strategy is seeking to assist impacted areas by:

- examining the characteristics of the workers, businesses and communities that have or will likely soon experience significant economic dislocation;
- evaluating what State, local, federal and private sector resources exist to assist in reducing the harmful affects of identified dislocations; and
- examining how resources should be mobilized to provide effective and timely assistance to affected workers, communities and businesses.

B. Long Term Impact Mitigation Strategy

Over the longer term, a strategy to counter Maine's defense dependency should seek to mitigate that dependency before the most harmful affects of cutbacks are felt. A comprehensive approach should work to cushion the blow of defense cutbacks by diversifying regional economies and addressing the needs of at-risk communities, workers and businesses. This approach consists of three basic elements:

1. **Encourage and assist multi-jurisdictional development capacity in at-risk regions.**

The Governor's Defense Task Force should develop recommendations to encourage and assist development capacity building in at-risk regions. Such programs should incorporate multi-jurisdictional community and economic development planning, assist in identifying economic

development infrastructure needs and financing assistance, and facilitate contingency re-uses planning for Department of Defense facilities.

2. **Reduce the defense dependency of at-risk firms.**

The best way to limit job losses to defense cutbacks is to have defense-dependent firms reduce their reliance on military spending. Prime contractors, secondary producers and providers of supplies and support services all face the likelihood of shrinking defense markets. These firms should be encouraged and assisted to undertake initiatives to broaden their customer base. Such an effort could include identifying new markets, adopting more competitive production technologies and redesigning products to meet civilian market needs.

The State can help put in place mechanisms to facilitate economic conversion initiatives at Maine firms. This could include facilitating access to market and product research, assistance in acquiring the re-training needs associated with the adoption of new technologies and products and business management assistance. Of special importance will be establishment of mechanisms to help Maine's small and medium-sized businesses finance often costly economic conversion efforts.

3. **Maximize the possibility of re-employment of at-risk workers in advance of actual cut-backs.**

The ability to mitigate the impact of defense cuts will rest with Maine's capacity to encourage new job creation. The current recession and anticipated slow growth decade ahead has increased the importance of Maine's competitive position as a business location. During the rapid growth of the 1980's Maine firms could afford the relatively high costs associated with public policy in Maine. However, future business expansion in Maine will depend, in part, upon controlling the costs to businesses of supporting government services, workers compensation insurance and environmental regulation.

Strategies to maximize the possibility of re-employment of at-risk workers in advance of actual cut-backs must also recognize that most at-risk workers have relatively high skill levels. Thus, they will need either a new employer in a similar industry, the ability to start their own business, or the ability to move into a new occupation with comparable pay.

For some at-risk workers re-employment will depend on broadening their educational level. One approach to increasing the educational level of at-risk workers may be to adopt a "civilian GI Bill". Modeled after the existing G.I. bill program available to the military, such a program could encourage defense-dependent workers to set money aside to finance college or other advance education/training while they are still employed. Of particular importance would be education in production management, technology and business management. Possible financing options should be explored including payroll deduction matched by employer or other assistance.

Another avenue to alternative employment of at-risk workers would be to encourage and assist the expansion of Maine firms utilizing the skills of defense-dependent workers and/or the services of other defense-dependent firms. The focus here is on existing Maine firms that could utilize the skills of affected workers. As noted in the above analysis, many direct and intermediate defense-dependent jobs are with firms in metal products and electronics. Thus, efforts to expand employment opportunities should focus on Maine metal products and electronics firms.

Maine has in place a number of programs to assist small and medium-sized firms. Some additional approaches could include: a "Small Business Aspirations Program"; innovative technology investment and training assistance; and identifying current or likely future opportunities for "import substitution" and for assisting Maine businesses to take advantage of these opportunities.

4. **Capitalize on opportunities related to defense cutbacks to diversify employment base.**

Implementation of defense restructuring offers some opportunities for the Maine economy. Base clean-up investments provide an opportunity to support the expansion of Maine's environmental industries and transferring the skills of Maine's large construction industry now suffering high levels of unemployment.

Military force reductions will greatly increase the number of former military personnel returning to Maine. These individuals return to Maine with jobs skills, workplace experience and financial support for retraining and higher education. Maine must find mechanisms to take full advantage of these and other opportunities associated with defense restructuring.

6. CONCLUSION

The broad characteristics of Maine's defense dependency are documented in this report. What requires further analysis are the more subtle features of Maine's defense dependency. How many Maine firms provide goods and services to BIW, Pratt & Whitney and the facilities at Kittery, Brunswick and Loring? How many Maine firms provide goods and services to prime defense contractors outside of Maine? How will reductions in U.S. Defense Department support of any of these facilities affect local and regional economies, and State and local governments services? Additional assessment can more specifically identify the population of at-risk businesses, workers and communities, and determine their degree of defense-dependency.

In the following months the Task Force will fill out the dimensions of a Statewide strategy to guide Maine through this latest economic transition. Task Force will comprise for parts. **Part one** will determine more specifically the dimensions of Maine's defense dependency. Defense-dependent firms include a broad array of businesses. Part One will seek to determine how Maine firms will be affected by reduction of output by prime contractors and bases, determine how defense realignment will affect local and State government services and evaluate the adequacy and effectiveness of existing federal, state and local dislocation response capacity, e.g., income support, family stress support, worker re-training, business assistance, and the like.

Part two will assess the current capacity of at-risk Maine businesses and workers to reduce their defense dependency. Do Maine's at-risk businesses and workers possess the resources to enter and succeed in non-defense markets? Some firms have the technology and skilled workers to shift to non-defense products. Others cannot afford new technology, training and marketing. Many defense-related workers earn relatively high wages, allowing them to finance education and training. However, they may not have local access to or knowledge of appropriate and/or desirable courses of study/training.

Part three will assist local and regional planning efforts already underway or anticipated. Using the information developed through parts one and two of this project and other relevant data sources, the Task Force will serve as a State-level contact and clearinghouse for local/regional defense realignment planning. It will also coordinate the local/regional strategy development efforts with the Statewide Task Force process.

Part four will develop a comprehensive strategy for reducing Maine's defense capacity. While the impact of some defense cuts are already being felt, Maine could face several severe defense-related dislocations over the next several years. This stratey will identify steps required to encourage, assist and strengthen local development capacity in at-risk regions, help diversify the re-employment base, enhance re-employability of workers, broaden the markets of defense-dependent firms, and anticipate and mitigate impacts on communities associated with defense spending reductions. Finally, part four will identify barriers to the effective implementation of the strategy, and recommend actions to remove these barriers.

THE NEW YORK TIMES **OP-ED** MONDAY, MAY 18, 1992

Department of the Peace Dividend

By Ann Markusen

NEW BRUNSWICK, N.J.

When Congressional committees voted last week to restore financing for two Seawolf submarines and five B-2 Stealth bombers, they demonstrated the country's paralysis over the peace dividend.

Two more Seawolfs will cost $3 billion. No one is arguing we really need the submarines; it's just argued that not building them would put 20,000 people in Connecticut out of work. Not spending $4 billion on B-2's, another craft without a mission, would similarly hurt California. But if we build them, we'll be even worse off in a couple of years. The same workers will be unemployed, we'll have several more white elephants and we'll be deeper in debt.

No one in Washington knows what to do. The Administration seems to think that conversion from the cold war economy means new arms sales. Conservatives believe deficit reduction will solve the problem. Liberals renew their claims for industrial policy and investment in the environment, housing, energy and transportation, and unions want jobs, whatever the source.

What's the solution? Create an independent Office of Economic Conversion, designed to be self-liquidating by the year 2000 and accountable to the President. The conversion office would develop policy, critique and strengthen Government programs and advise Congress, state and local governments. In addition, it could generate badly needed data on forthcoming cuts in defense spending and their probable impact.

What has been done so far is clearly not enough. In 1990, Congress appropriated $200 million for conversion — $150 million for workers, $50 million for community economic development. The Defense Department was to disburse the money to the Labor and Commerce Departments.

The history of that small pot demonstrates why we can't leave adjustment to the Pentagon. Today, only half the money has made it to the Commerce and Labor Departments. Why? The Pentagon simply has no incentive to shepherd funds to needy places quickly. If the remaining $100 million is not passed on, it will be used for Pentagon operations and maintenance.

Why should the Pentagon be asked to run a conversion program, anyway? Such a mission poses a clear conflict of interest — like asking former Soviet generals to dismantle their arsenals. The military's job is to preserve the defense industrial base, not convert it. Besides, given its preference for performance over cost, it is simply out of its league when it comes to making a plant or facility commercially competitive.

Nor are the Labor or Commerce Departments prime candidates to lead us into a post-cold-war economy. The Labor Department helps workers only after they are laid off; it has no experience in programs that keep people at their jobs. The Commerce Department's mission is theoretically more appropriate, but its Economic Development Administration was decimated by Reagan cuts in the 1980's. State and local governments, strapped for cash, can't do it either. While a few states, notably Washington and Connecticut, have encouraged conversion, most have neither the will nor the capability.

> Create an agency to convert our cold war economy.

Besides, successful conversion means more than just worker retraining or economic diversification for cities. The most challenging questions involve the way in which adjustment policies are linked with new industries. Should conversion assistance be confined to communities and workers supported by defense contracts, or should industries hurt by defense-inflated wages and interest rates be eligible, too? Should workers be required to relocate to new jobs or should job creation be focused on where they live? Should new research and procurement programs in energy and the environment favor companies that depend on defense or be open to competition from all comers?

Conversion is a rolling stone gathering speed. This year's House budget plan allocates $3 billion for conversion, $1 billion of which would come from the $274 billion defense budget. On close inspection, the non-defense portion turns out to be window dressing for various old priorities, including $330 million that would go to National Aeronautics and Space Administration. It's a shame to call this conversion at all. And it's unclear whether the $1 billion would again be routed through the Pentagon. But if so, it's bound to disappoint.

In the early 1980's, the Department of Defense planned the 50 percent increase in real defense spending. Because we haven't planned for the peace dividend, which could be $400 billion or more over the decade, we can't seem to cut the budget at all. Congress should join the President in creating an independent agency to lead us through the process. □

Ann Markusen, director of the Project on Regional and Industrial Economics at Rutgers, is co-author of "Dismantling the Cold War Economy."

Appendix J

N.Y. VIETNAM VETERANS LEADERSHIP PROGRAM, INC.

Groton

August 21, 1992

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Executive Director
Eugene Gitelson

Mr. Greg Hartung
Deputy Director
Public Affairs
Defense Conversion Commission
1825 K Street, NW
Washington, D.C. 20006

Dear Mr. Hartung:

On the suggestion of Assistant Secretary Robbin Higgins of the US Department of Labor, I contacted your office last week to discuss testifying before the Commission in Groton in September. I had the pleasure of speaking with Andy Porth about the hearings and the work of the Veterans Leadership Program ("VLP").

The VLP (formerly the Vietnam Veterans Leadership is a 501(c)(3) not-for-profit organization founded in 1982 by Vietnam veteran businessmen and business-women who believe that veterans have unique marketable skills and experiences that are transferable to the business community.

The mission of the VLP is to assist unemployed or severely underemployed veterans to achieve economic self-sufficiency through leadership, individual responsibility and mutual support.

Originally formed to serve the needs of combat veterans of Vietnam, the VLP recognizes the common experiences and challenges facing all men and women who answer our country's call. Committed to serving the "hard-to-serve" as well as to preventing future "hard-to-serves", the VLP is inclusive of all veterans from the New York City region who are seeking to enter the economic mainstream of our city.

Since 1983 when our job program began, the VLP has placed over 1,100 unemployed veterans in career-track positions at salaries now averaging over $22,000 a year. These placements in a wide array of jobs and industry sectors have generated over $35,000,000 in total salaries which, in turn, generated over $5,000,000 in taxes back to the treasury. VLP's

placement rate is 70% with a 70% retention rate through the first year with an unemployed population that is predominantly "hard-to-serve" - 1/3rd are homeless or near-homeless, 85% are minorities. 20% of our participants had been unemployed for two years when they entered the program, 42% had been out of work for at least a year, and 63% had been out of work for up to six months.

In the last 18 months, the population who we are serving has reflected the increase in recently-separated veterans with VLP's enrollment equally distributed among Vietnam ("in country"); recently-separated (including an increasing number of Desert Shield and Desert Storm returnees); and all other eras (World War II, Korea and Vietnam-era). Women veterans now account for 20% of our current participants.

The VLP approach is based on the structure of the military's "Basic Training," but relates the veteran's experience to the demands of the job market today. Apart from proof of military service, the VLP requires that veterans "self-select"; i.e., applicants must demonstrate their commitment to their own career and to securing a job that fits their true skills. Most applicants have not found their niche. Veterans who seek our services will often state that, "I know I have something to offer but I don't know what it is and when I find out what it is, I don't know what to do with it." VLP helps the veterans find answers to these questions. The VLP program is a bridge to a career path with a future. If the veteran is willing to do the demanding work of the program to find work, then VLP is the right program for them.

The VLP's program is geared to the veterans's needs and to the realities of today's job market. The VLP's job placement program is geared to the needs of a marketplace that is increasingly diverse and shifting. In fact, VLP's last 50 placements involved 50 different companies (predominantly small and medium-sized) in 50 different job titles.

The VLP has recently expanded career options for veterans by opening the Veterans Business Assistance Center (VBAC). The VBAC is a natural outgrowth of the VLP "jobs program" as a continued emphasis on economic self-sufficiency, leadership and use of the skills developed in the military which are applied to the business world. The VBAC is a division of the VLP and works closely with the existing jobs program staff and curriculum. The VBAC mission is to provide veterans with the opportunity to become successful independent businesspersons, expand upon their existing ventures, or to redirect and channel their efforts towards a career path.

Last week, the US Small Business Administration designated the VLP entrepreneurship program as a "Regional Center" for small business development and has asked the VLP to develop a replicable national model. The efforts in the

entrepreneurial area parallel the designation of the VLP employment and training program by the US Department of Labor as a "National Model."

We are proud of our programs taking a leadership role in the challenge of transmission for the men and women who answered America's call.

We would be honored to share the experiences of the VLP job and entrepreneurship programs with the Commission. Please let us know how we might contribute to the hearings in Connecticut. If you have any questions, please feel free to call me at (212) 269-8857. I have enclosed information about the VLP and a video tape produced and donated by MTV Networks about our work.

Sincerely,

Gene Gitelson
President

Enclosures

MANUFACTURERS HANOVER

International Trade & more

VETERANS LEADERSHIP PROGRAM

THE Veterans Leadership Program (VLP) is a tax-exempt, not-for-profit, employment and training organization. It was founded by businessmen and women who believe that veterans have marketable skills and abilities. The VLP assists the veteran to translate the skills of the military experience to the realities of the challenges facing businesses in the '90s.

The VLP is a no-nonsense, business-based, self-help program originally formed to specifically serve the needs of combat veterans of Vietnam. Today, the VLP recognizes the common experiences and challenges facing all men and women who answer their country's call.

The VLP is about jobs. "We don't do parades, lobby for legislation, or serve as advocates for all veterans' needs. We do jobs and believe very strongly that the military experience and the skills and positive 'can do' attitude can be an important asset to the employer," states the organization's President Gene Gitelson.

Veterans that are accepted participate in two to eight week career management training programs which include vocational assessment, resume and interviewing skills, self-marketing, and outplacement support. One of the highlights of the program is a unique computer literacy training course of word processing, DOS, and Lotus 123 sponsored by the IBM Corporation.

The VLP track record? Over 1,000 previously unemployed veterans placed in jobs with a future, and there is no fee to the employer or the veteran.

The graduates are well-screened, mature, and ready to get the job done. They represent a variety of levels of experience in the blue collar, white collar, and technical fields. Some seek entry-level opportunities while others offer solid management experience.

Follow-up information from participating employers shows that over 75% of the graduates make it through the first year of employment. But the best indication of success is the number of additional requests from companies that have previously hired VLP graduates.

The VLP is funded by the business community and by the government. "We have worked closely with Manufacturers Hanover Trust Company for a number of years. The Urban Affairs and Urban Lending Departments of the Bank have made it possible for the VLP to weather the storms and uncertainties of government grants. In fact, if it wasn't for 'Manny Hanny' the VLP would have died in its infancy and again during the recent cutbacks in funding," states Gitelson.

The VLP has received the President's Private Sector Award and has been designated a national pilot program and model by the U.S. Department of Labor.

For more information about the VLP, please contact Gene Gitleson, President, or Ruth Rivers, Placement Director, at 212-269-8857.

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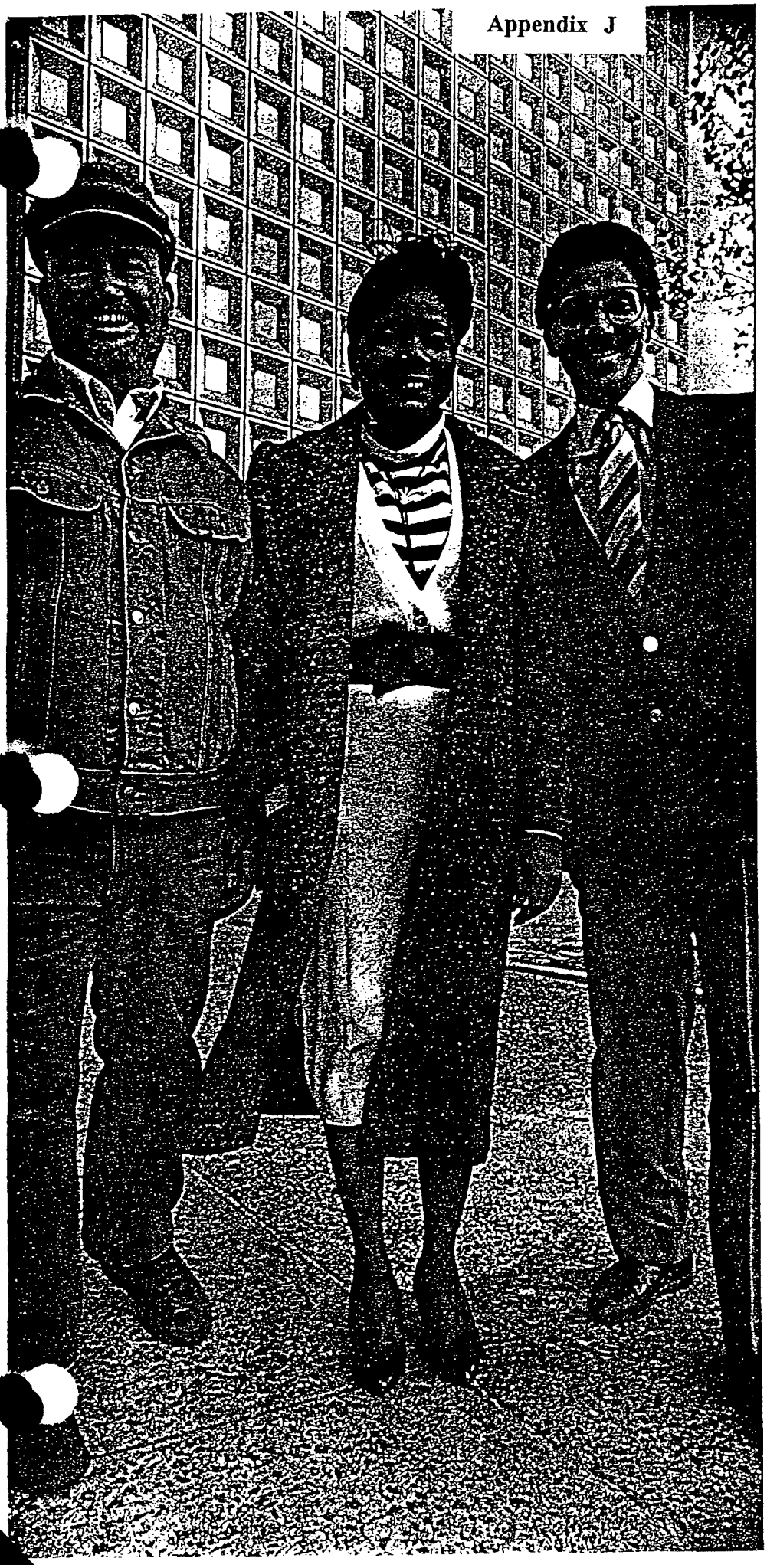

W E

BELIEVE

I N

VETERANS

VETERANS LEADERSHIP
PROGRAM, INC

THE VETERANS LEADERSHIP PROGRAM

The VLP, a tax-exempt, not-for-profit employment and training organization, was founded in 1982 by veteran businessmen and women who believe that veterans have marketable skills and experiences that are transferable to the business community.

The VLP was originally formed to specifically serve the needs of combat veterans of Vietnam. Even now, twenty years later, the very serious employment challenge facing these men and women is unique, and one that time does not necessarily heal. The very nature of the war itself, the economy that veterans faced upon returning home, the delayed nature of "war stress" reactions, and the difficulty of separating the war from the warrior, all contributed to a difficult adjustment to civilian life.

Today, as soldiers stand ready on new front lines, we recognize the common experiences and challenges facing all men and women who answer their country's call. Thus, the VLP is inclusive of *all* veterans.

Our 8-week readjustment and career management training program serves as the veterans' bridge to a job path with a future. The VLP curriculum includes: vocational assessment, resume and interview skills, self-marketing and outplacement support. One of the highlights of our program is a unique computer literacy training course of word processing, DOS and Lotus 123 sponsored by the IBM Corporation. In addition, we offer individual and group counseling. Since its inception, the VLP has placed over *1,000* previously long-term unemployed Vietnam-era veterans in career positions.

More than half of the veterans whom we assist are homeless or near-homeless. Many are disabled from either physical wounds, Agent Orange-related disorders or Post Traumatic Stress Disorder. Pride of military service is lost as unemployment takes its toll on their self-image.

SUCCESS STORIES

Yet, in spite of all these barriers, the VLP has been able to place *67%* of the veterans who graduate from our rigorous 8-week Basic Training program in real jobs averaging (in 1990) over *$19,500.*

The US Department of Labor states that the average wage for graduates of all the other veterans employment programs that were funded by their organization is $5.62 per hour or $11,700 per annum. Average wages for VLP graduates are *66% higher.*

Follow-up information from participating employers shows that 70% of our graduates make it through the

first year of employment. Many of VLP's new job orders come from companies that hire our graduates—a testament to the staying power of our veterans. One recent success: The July 1990 issue of *Inc.* Magazine identified one company where several of our entry-level placements are now managers.

In the aggregate, the total salaries of the 1,000 plus placements have contributed over $35,000,000 to the Gross National Product. An additional $5,300,000 has been returned to the Treasury in the form of taxes.

COSTS

According to the NYS Department of Labor, the average cost per participant of training programs run by non-profit organizations is $10-$15,000. Trade schools cost $15-20,000 per trainee. The Job Corps reports a cost in excess of $20,000 per enrollment. It costs taxpayers over $30,000 to maintain an individual at a city shelter for one year.

Since the VLP was founded in 1982, the cumulative budget of the job program has been less than $2,800,000. An additional $4,100,000 in in-kind donations has enabled the VLP to spend less than 10% on administrative and fundraising costs. Consequently, with a total cost-to-date of $6,900,000 our average cost per placement (for the 1,000 placements) is only *$6,900* per vet.

THE RETURN ON INVESTMENT

5X or 500% ($35,000,000 salaries created/$6,900,000 total cost)

Thus, for every $1 invested in the program, $5 is generated for the veteran, his family, and the economy.

THE NEED FOR OUR SERVICES CONTINUES

In April 1990, the US Department of Labor designated the VLP as a National Employment Demonstration Program for Vietnam veterans as well as other veterans seeking to enter the economic mainstream.

Over 600 unemployed veterans are currently on the VLP waiting list seeking entry to the program.

IF YOU

Are a veteran who is unemployed or underemployed

Are an employer seeking qualified personnel at no cost to you

Can contribute time, money, or other resources

Would like more information

PLEASE CONTACT:

VETERANS LEADERSHP PROGRAM
25 Broadway (12th floor)
New York, N.Y. 10004

212-269-8857

Chairman, Douglas Greenlaw
President/Executive Director, Gene Gitelson

LET'S WORK TOGETHER!

RECOGNITION

The work of the VLP has already received the following commendations:

The President's Private Sector Award

Designated national pilot program by US Department of Labor

Lead grantee for New York State Department of Labor veterans program

Recipient of special funding from the New York City Department of Employment

Only veterans computer literacy program funded and maintained by the IBM Corporation

The Citibank Award of Excellence

Awarded "Patent" for program model by the Foundation For Social Inventions of the USSR

Model Program for the Union of Soviet Veterans of Afghanistan (Souyez Afganistana Veterana)

Host and Producer for "The Vietnam Experience" on WYNY-FM—A weekly talk show addressing the legacies of the Vietnam Era

SUPPORTERS

The VLP is funded by the business community and by the government.

MAJOR SUPPORTERS INCLUDE:

US and New York State Departments of Labor

New York City Department of Employment

IBM Corporation

Manufacturers Hanover Trust Company

Brooks Brothers

WYNY Radio

Viacom/MTV Networks

New York Telephone Company

Drexel Burnham Lambert

Fisher Brothers

Chase Manhattan Bank, N.A.

Bear, Stearns and Company

Pepsi-Cola

Donaldson, Lufkin & Jenrette

G.E. Capital

AT&T

Capitol Cities/ABC

The Sheraton Corporation

Association of the United States Army

Eastern Paralyzed Veterans Association

OTHER SUPPORTERS INCLUDE:

Clark Foundation

Cummings Memorial Fund

Sprague Foundation

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Starr Foundation

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The Baker Trust

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Chair, The Giraffe Project

JAMES C. PETERSON
Colonel, US Army (Retired)
Consultant, Corporate Communications

HARRY N. WALTERS
President, Great Lakes Carbon Corporation
Former Administrator, US Veterans Administration

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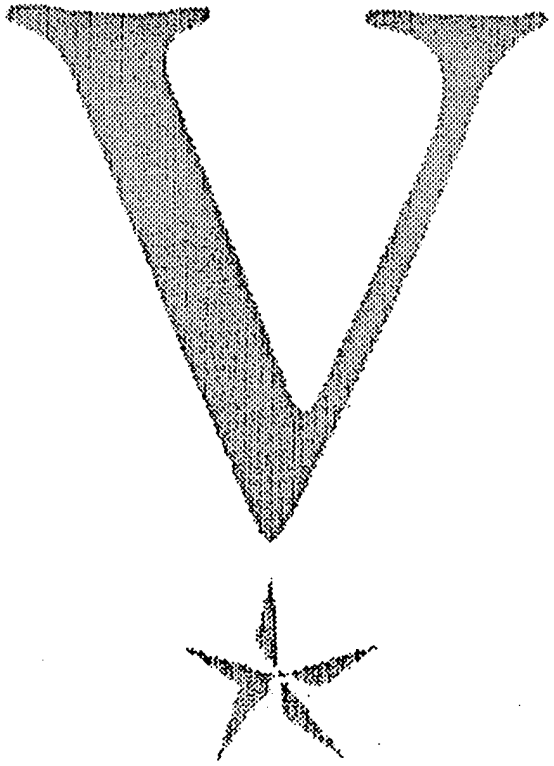
Printing: Benchmark Graphics Paper: Atwater Press Litho Corp

VETERANS LEADERSHIP PROGRAM.



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the workforce challenges facing our country

portrait of the hard-to-employ 2

- Long-Term Unemployed or Recently Unemployed Mature Worker and Others Permanently Dislocated
- Unclear or Rigidly-Defined Skills
- Undervalued Life Experiences and Low Self-Esteem
- Debilitating Traumatic Experiences
- Residual Emotional and Physical Issues
- Isolated and Highly Stressed Lives
- Frustrated and Often Intimidated by Job Search
- In a Downward Spiral, ***but*** has the Will and the Ability to Break that Spiral

the challenge

- Rapidly Changing Economy
- Hidden Job Market (85%-90% of Job Openings *Not* Advertised)
- Lack of a Bridge Between Skills and Employers
- Breakdown of Educational and Vocational Systems
- ***A Need for Solutions***

what is needed

4

A No-Nonsense, Disciplined, Business-Based Approach that Reinforces Strengths, Self-Leadership and Responsibility, which Includes:

- A Group Structure Based on Shared Life Experiences
- In-Depth Self-Assessment to Identify Successes
- Individual and Group Counseling Based on "Health" Model
- Intensive Career Management to:
  - Identify Marketable Skills
  - Develop a Resume that Works
  - Build Interview Skills
  - Network to Find the Right Job
- Computer Literacy Training
- Telephone, "Fax" and Message Center for Self-Marketing Support

BOTTOM LINE = EMPLOYMENT

the leadership program

who we are

- A Public-Private Partnership
  (Department of Labor, Corporate Community and Foundations)

- Non-Profit, Tax-Exempt

- Founded in 1982 by Businessmen and Women who Believe Veterans Have Marketable Skills and Abilities Transferable to the Business Community

- Committed to Quality

what we do

7

The Leadership Program is a Public-Private Partnership that has Developed a Unique, Proprietary Process that Emphasizes:

- The Positive Benefits of the Military Experience
- Discipline, Challenge and Intense Training
- Individual Responsibility Within a Group Support Structure
- Standards of Excellence
- "If You do It, It Will Work!"
- "One Curriculum for All -- No Deals"

This Process has Been Tested and Proven to Work with Veterans Who Were Challenged By:

- Residual Combat Stress — Post Traumatic Stress Disorder (PTSD)
- Homelessness or Near-Homelessness
- A History of Substance Abuse
- Recent Criminal Justice Barriers to Employment
- Learning Disorders
- Long-Term Unemployment or Severe Under-employment

This Model has Been Successfully Tested as a *National Pilot* by the U.S. Department of Labor and Endorsed by:

- The American Society for Training and Development, as a ***Valid, Viable Process*** for Other Difficult-to-Place Unemployed Populations
- The IBM Corporation
- Lotus Development Corporation
- The New York City Department of Employment

the results

- Success Rate of Over 70% — Over 1,050 Unemployed Placed (85% Minorities)
- One in Three Placed Were Homeless or Near-Homeless
- Salaries Average Over $20,000/Year
- Veterans' Salaries 85% Higher than Reported for Other Programs
- Over 70% Retention Through First Year of Employment
- Over 85% of VLP Funding Channeled for Direct Training and Employment
- VLP Operates at About Half the Cost of Other Government-Funded or Trade School Programs

the benefits

9

- **Develop a viable workforce**
  - Highly Screened Candidates
  - No Fee to Employer
  - Well-Trained Employees
  - Committed Workforce
  - A Placement Process that Works (Effective and Efficient)

- **An investment that returns 5x**
  - Each $1 Contributed Generates $5 for Client, Family and Economy

our supporters

VLP -- a public-private partnership

public partners U.S., New York State and New York City Departments of Labor

corporate partners

IBM Corporation
Brooks Brothers
Viacom/MTV Networks
Olympia & York
Lotus Development Corporation
Capital Cities/ABC
Chemical Bank/
Manufacturers Hanover Trust Company
Shearson Lehman Brothers
Chase Manhattan Bank
Price Waterhouse
Pepsico

foundation partners

The Clark Foundation
Herman Goldman Foundation
The Charles A. Frueauff Foundation
The Fund for the City of New York

board of directors Chaired by Douglas Greenlaw, President of Channel One, Whittle Communications, and Includes a New York State Supreme Court Justice and Senior Executives from Fortune 500 Companies

council of advisors Bi-Partisan and Includes Both U.S. Senators from the State of New York

leadership committee Composed of Senior Military Officers, a Church Official, Leading Corporate Executives, and the Former Administrator of the U.S. Veterans Administration

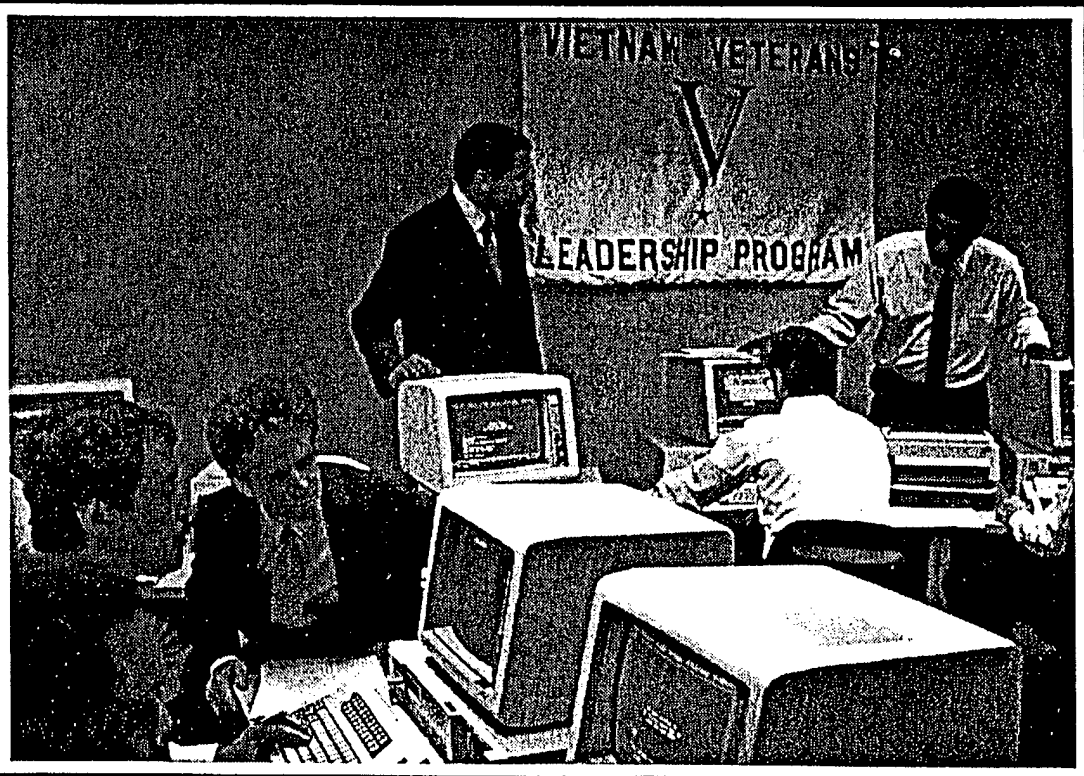
The VLP has been recognized and featured on "The Today Show," "20/20," CBS National News with Charles Osgood; Winner of the President's Private Sector Award, Citibank Award of Excellence and Designated National Model by the U.S. Department of Labor.

(A complete list of all partners, advisors and awards can be found on pages 29 to 34 in the Appendix.)

IBM takes the lead

As a condition of graduation, VLP requires each program participant, many of whom are inexperienced with a typewriter, to learn:

- *Word processing to produce a marketable resume*
- *Basic Lotus 1-2-3 to produce a family budget spreadsheet to guide job selection*
- *Data Base Technology to track progress of job search*



The IBM Computer Learning Center at the Leadership Program was donated in 1988 and is fully maintained and supported by the IBM Corporation

the model

Price Waterhouse donates equipment to aid VLP

The VLP helps veterans acquire marketable skills that are transferable to the business community. Pictured here is the International Assignment Tax Services staff of Price Waterhouse receiving recognition awards for its support of VLP: Michael Budnick, Ranni Carr, Sydelle Weinberger, Gene Gitelson (VLP), Derek Wright (VLP/PW) and Rica Fox.

Price Waterhouse has become one of the many corporate supporters of the Veterans Leadership Program (VLP) by donating equipment and furniture for the only IBM Computer Learning Center for veterans in the country.

overview

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- The Employment Model, developed over a 10-year period, is a comprehensive template that provides for bridging the skills of the unemployed (or under-employed) with the skills needed in the marketplace.

- Based on the participant's commitment to his or her own progress and bottom line accountability, the model combines corporate outplacement technology, personal computers, vocational assessment and individual/group support.

- The underlying strength and uniqueness of the program is based on the VLP's uncompromising standards of excellence and discipline.

development of the leadership model

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1982:	Needs Assessment by Unemployed Veterans
1983:	Volunteer Mentor Program
1984:	Skills Assessment Program - A Corporate Outplacement Approach
1986:	Addressing the Counseling Needs of Vietnam Combat Veterans
1988:	Empower the Veteran through Technology - The IBM Center
1989:	Serving Homeless and Near-Homeless Veterans - The Marketing Center
1990:	The National Pilot
1991:	National Model for Veterans
1992:	Serving *All* Veterans - Career Search Center - Entrepreneurship Center

exportability of the model

- Works to Support *All* Industries and Sectors
- Candidate-Driven: Keys on the Unemployed and Under-employed Irrespective of Geography, Skill Base or Organization
- Market-Driven: Channels Available Skills to Available Jobs
- Works with "Blue," "White" and "Tech" Workers
- Post-Vocational Training Bridge for Individuals Acquiring Specific Technical Skills Who Then Need to Market Self
- Matches with Business Community - Based on Tested Corporate Outplacement Model

funding

public/private consortium for the leadership model -- 1992-93

public support:	
New York City Department of Employment *Plus $412,500 in 1993*	$412,500
U.S. Department of Labor	100,000
private support: in-kind resources	
Olympia & York/The Travelers Companies	$650,000
IBM Corporation	125,000
Capital Cities/ABC	25,000
Shearson Lehman Brothers	35,000
Lotus Development Corp.	35,000
Brooks Brothers	85,000
Viacom/MTV Networks	35,000
Dr. James J. Gallagher	25,000
Ernan Roman Direct Marketing Corp.	50,000
The Strickland Group	25,000
Oxxford Information Technology	50,000
Oce	15,000
American Society for Training & Development	25,000
Price Waterhouse	20,000
grants + in-kind *total:*	*$1,712,500*

the people

Miguel C. served in the U.S. Navy in the Persian Gulf blockade during Desert Shield.

He was a Small Engine Repair Specialist, and when he separated from the service, expected to get a job as a clerk in a local toy store. Although that didn't pan out, Miguel, who was interested in computers, entered the VLP and put in extra time in the IBM Computer Literacy Center.

The director of the center tapped into Miguel's technical skills by asking him to assist on repairs; as a result, Miguel's skills grew, and he was hired by Price Waterhouse as a junior technical assistant at a salary of $20,000. *Miguel is now the evening instructor of Lotus 1-2-3 at the VLP, and the proud father of a new son.*

Susan T. was a Personnel Management Specialist in the U.S. Army serving from 1987-90. She returned home with a sense of confusion about where she might fit in; her military specialty did not transfer easily to the business world, so she took a temporary job. This position lasted only six months, and Susan was right back where she started. Her mother heard about VLP on the radio and told Susan to call.

As Susan recalls, "When I came down to VLP, I thought nothing would happen." But it did! Susan worked very hard in the 30-day program to assess her skills and sharpen her interviewing techniques. She held to her original objective to work in personnel until VLP staff and employer feedback made it clear that she needed re-training. Susan redefined her skills, widened her job goal to emphasize her office skills and developed a more polished appearance with the help of Brooks Brothers and a volunteer hairdresser recruited by the staff.

She was quickly hired as an Administrative Assistant for Bozell Worldwide Advertising with a salary of $20,000. (Bozell has since hired three other VLP candidates.)

Michael L. is a Persian Gulf veteran who returned home to find his previous security guard position filled. Under pressure to find a job right away, Michael had neither the money nor the resources to pursue a legal remedy. After several weeks of unsuccessful job searching, Michael realized he was unsure of what he had to offer a prospective employer.

Michael was referred to the VLP by a government agency and soon after being accepted into the program, Michael was "fast-tracked" after successfully completing his skills assessment and interview training. He was subsequently hired by the East New York Savings Bank as a bank vault attendant, which is a clerical career-track position. After six months, Michael was given an excellent performance review and a raise to $17,500. *According to his manager, "Michael is doing an excellent job. We're real happy with him and it looks like he'll get moved up to customer service."*

profiles of the veterans

Len S.

Len S. is a heavy combat veteran. Upon his return home from Vietnam, he became involved with drugs. Although he was able to finish college and one year of law school, his employment record reflected 15 jobs over a 20 year period, including being unemployed for the past eight months.

On the verge of suicide, Len S. enlisted the help of the VLP. He worked hard and responded well to individual and peer group counseling (for the treatment of his clinically-judged Post Traumatic Stress Disorder) as well as the career training component of the program. His first position was a customer service representative at a major bank.

After six months, he applied for and passed the exam for a law enforcement position. He has successfully concluded his second year as a court officer for the New York State Supreme Court. Len hasn't forgotten where he's been -- on his own, he runs a clothing drive for homeless vets. *Len's work with the homeless was acknowledged by Brooklyn District Attorney, Charles Hynes, at a recent ceremony.*

Frank D.

Frank D. saw a lot of combat in Vietnam. When he came home, he had difficulty finding work because of his limited education and little "G.I. Bill" support. He drifted from job to job, and as he recalls, he was frequently the last one hired and the first one fired when there were layoffs.

Just before he became homeless, Frank had worked three part-time jobs to keep his single-parent family going. *With counseling, Frank has been able to organize his life, hold a job and provide for his family. He currently works as a superintendent (with an apartment) while continuing counseling.*

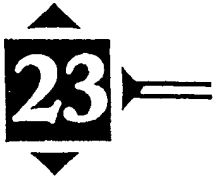
Ronald N.

Ronald N. is a Vietnam-era veteran who made the successful transition from the military to the computer field. He was in a fast-track, but he turned to cocaine thinking it would help him handle the stress. Instead, he lost his job, home and family. He went through "detox" a few times, but fell back and ended up in a city shelter. Ronald then joined "AA" and "NA," and after completing the 12-step programs, was referred to the VLP by the shelter.

He came to the program with a negative attitude but the intense demands of the program challenged him to make the opportunity work for him. Although still negative and convinced that his mainframe skills were obsolete, he applied himself to finding the handful of companies still using the equipment he was trained to use. He persevered through the rejections, the constant reminders of "homelessness" on every application and the slow rebuilding of his professional stature. Every day, Ronald took full advantage of the VLP marketing center. He stayed with the program and was hired at a computer systems operator as a salary of $25[illegible] moved into [illegible] *to other VLP candidates* [illegible] If you do it, it will work."

call to action

the challenges ahead



- Over 1,600 Unemployed Veterans on Our Wait List
- Persian Gulf Veterans
- Military "Reduction in Force"
- Continuing Corporate and Municipal Layoffs
- Transfer to Non-Veteran Populations

needed to get the job done

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- Your Financial Support
- Your In-kind Resources
- Your Information on Job Opportunities

how you can help

you can make a real difference

Your Contribution Will Enable Unemployed Veterans
to Receive the Job Assistance that They Need
to Get on With Their Lives

help us all

Meet a National Challenge

Create *Real* Equal Opportunity

and add your leadership to that of

Brooks Brothers

IBM Corporation

Chemical Bank

good news update

recent contributions

- **$825,000 Grant Approved by Mayoral Agency**

  New York City Department of Employment Approves Two-Year Funding, an Increase From $100,000 in 1992, for the Leadership Program's Basic Training Program — Plus New Advanced Training components:

  - Advanced Computer Training
  - State-of-the-Art Career Search Center
  - Counseling

- **USDOL Grants $100,000 for Employment Model**

- **New Entrepreneurship Grant**

  City of New York Funds the Veterans Business Assistance Center (VBAC), the First Center in New York that Supports Veterans Opening Their Own Businesses.

- **Lotus Development Corporation Comes Aboard**

  Lotus Development Corporation Joins the Public-Private Partnership with a Donation of Hardware and Software for Veterans Training and the New Electronic Job Search System.

- **Model to be Tested on Non-Veterans**

  The American Society for Training and Development Pledges $25,000 for In-Kind/Pro-Bono Match to Develop a Broad-Based Employment Model — Trainers and Materials for Model in the Works.

- **Clark Foundation Establishes Capital Endowment Fund**

  The Clark Foundation Donates $50,000 to Establish a Working Capital Endowment Fund; This Unsolicited "Impact Grant" Accompanies an Additional $15,000 General Support.

- **Public Sector Grant Matched**

  Business Community Commits to Over $1,200,000 In-Kind Match to Public Sector Grants: Olympia & York/Travelers (Space), IBM (Computer Center), and Brooks Brothers (Suits and Dresses).

appendix

public and corporate supporters

U.S. Department of Labor
NYS Department of Labor
IBM Corporation
Brooks Brothers
Olympia & York
Price Waterhouse
New York Telephone Company
United States Trust Company
Fisher Brothers
Bear, Sterns & Company
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Capital Cities/ABC
Texaco
Ernan Roman Direct Marketing Corporation
The Strickland Group
West Point Society

New York City Department of Employment
Chemical Bank/
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Lotus Development Corporation
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American Society for Training & Development
The Giraffe Project

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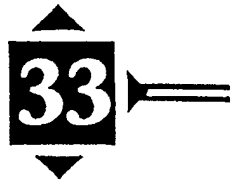

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recognition

- Featured by "The Today Show" (NBC), Charles Osgood on Memorial Day (CBS), "20/20" (ABC) and On-Going PSAs (WABC-TV)
- U.S. Department of Labor "National Pilot"
- Winner of President's Private Sector Initiative Award
- Only IBM-Sponsored Veterans Training Center
- Citibank Award of Excellence
- Special Project for NYS and NYC Veterans Initiatives
- Awarded "Patent" for Program Model by USSR Foundation
- International Features: Suddeutsche Zeitung (Germany), Trybuna Ludu (Poland), Izvestia (USSR) and Argumenti & Fakti (USSR)
- Hosted/Produced Over 200 Weekly Radio Talk Shows: "The Vietnam Experience"

the staff

The VLP's nationally-recognized employment and training program has been developed by a diverse staff of high-energy, committed professionals and a number of volunteers who believe that, "If you do it, it will work!"

And *It* Works Because They Work, By:

leading and developing resources

Gene Gitelson
President/Executive Director
(Founder)

M.B.A., Former Second Vice President, Chase Manhattan Bank, Management Consultant, Developer -- University of the Streets, 1st Lt./Combat Platoon Leader, Vietnam.

managing the program and finances

Patricia Bair
Deputy Director

M.Ed & Doctoral Candidate in Public Admin. Leadership, 20 years admin./grants mgmt., Flag bearer -- "If you do it, it will work." Son drove one of the lead tanks in drive through Iraqi lines.

training and placing veterans in career positions

Ruth Rivers
Placement Director

Maintains high standards for job readiness through career management training, preparing veterans for interviewing. Works for both the employer and the veteran trying to find the best career match. Brings private employment and corporate experience to VLP for bottom line results.

training the veterans in telemarketing (themselves) and basic word processing

Celia Bressack
Marketing Center Director
& Homeless Veteran Support Center

A "wearer of many hats" -- telemarketing, computers and job search (phones, fax, message center and "intro"/ "thank you" letters). Ten years experience in telemarketing -- last as T-M Director at the Brooklyn Academy of Music.

The VLP Works Because Its Dedicated Staff Works, By:

ensuring discipline and providing support to the candidates in the program

Charles Scott
Service Coordinator

The program's "Platoon Sergeant" -- motivation, commitment to excellence and tracking veteran's skills acquistion per the 59 objectives of the model. Graduate of the program. Combat veteran and drill sergeant - Korea and Vietnam.

assessing/validating each veteran's vocational skills

Carol Citarella-Garvey
Vocational Counselor
(on loan from NYSDOL)

Conducts vocational testing and assessment. Bridge to Labor Dept. services. Over 20 years experience in employment field. M.S. from NYU. Married to veteran and daughter of disabled WWII veteran.

guiding the delivery of employment-related counseling

Dr. Ghislaine Boulanger
Psychologist
(part-time)

PhD. Psychologist and Author. Pioneered identification of residual war stress in Vietnam veterans. Helps veterans relate vocational and personal assessments to realistic career options. Supervises part-time and volunteer counselors. Oversees quality control and database.

Rona Wall
Counseling Director
(part-time)

CSW with extensive experience in group and individual counseling. Responsible for all aspects of the VLP Counseling Program, including securing resources to assist veterans whose individual challenges may be a barrier to employment.

The VLP Works Because Its Dedicated Staff Works, By:

training veterans in stress management during job search/on the job

Tom McGoldrick
Psychologist/ABD
(part-time/on-loan from the V.A.)

Former VLP staff/PhD. candidate. Strong clinical skills and years of experience with war stress and employment-related stress. Leads workshops and "one-on-ones." Good sense of humor which helps veterans and staff.

ensuring that each veteran is computer-literate

Derek Wright
Director, IBM Computer Center
(part-time -VLP/
full-time - Price Waterhouse)

PC and LAN Specialist. Provides basic computer literacy (and optional advanced) training in word processing, Lotus 1-2-3 and data bases for job search. Relates VLP training to "real world" business practices. Supervises other part-time staff.

ensuring that each veteran learns Lotus 1-2-3 to determine a personal budget

Miguel Constanza
Computer Skills Trainer
(part-time -VLP/
full-time - Price Waterhouse)

"Desert Shield" Navy veteran -- small motor repair. Recent graduate, VLP. Developed computer experience while at VLP. Enthusiastic trainer and especially effective with younger veterans at VLP.

ensuring that each veteran produces a marketable resume

George Baez
Computer Skills Trainer
(part-time -VLP/
full-time - Tappan Moore Systems (America))

Post-Vietnam Navy veteran -- submariner. Solid private sector experience. Ability to motivate and empower veterans to overcome computer fear. Patient.

The VLP Works Because Its Dedicated Staff Works, By:

welcoming each veteran who calls the VLP

Thelma Drysdale
Receptionist

"Official Greeter" handles all the incoming recruitment/WABC-TV PSA calls. Schedules initial interviews and triage. "Down-to-earth" and sensitive to the unemployed veteran and the potential entrepreneur. Brings great warmth and flair to this critical position. Solid private sector background.

keeping the "books"

Maria Gouvea
Bookkeeper
(part-time)

Ten years experience in the private sector with Hartz Mountain Corp. and Celanese. Thorough, meticulous with an ability to endure government red tape.

launching and directing our newest program -- the Veterans' Business Assistance Center

Steve White
Entrepreneurship Director
(part-time)

Principal of White & Company -- his background includes five years as a commercial loan officer, three years with the SBA, eight years as co-owner of the Upstart Publishing Co. (a firm producing mgmt. aids for small business). A volunteer with the VLP for nine years. A Combat Platoon Leader and Acting Company Commander in Vietnam. Committed to developing an entrepreneurship program as rigorous as the employment model with fellow veteran business owners as mentors.

Oslene C. Carrington
Assistant Entrepreneurship Director

Oslene brings to the Entrepreneurship Program a varied business background (held positions with Revlon, Inc., Chase, Business International, The United Nations and Catalyst) along with the added benefit of a Master's Degree in Marketing and Management from NYU.

Plus, the VLP Works Because of the Ongoing, Unique Contributions of Volunteers Such As:

Jim Peterson

As a former Army Public Affairs Officer in New York, Jim opened numerous doors for the VLP, including the linkage with Brooks Brothers. Now as a consultant in corporate and executive communication and leadership training to companies such as Mutual of America, Jim donates three hour training sessions ("Leadership Through Communications") each month. A graduate of the USMA at West Point, Colonel/U.S. Army (Ret.) and a veteran of Vietnam.

Camille Scifo & Rhonda Waterman

Both of Carnegie Hill Associates and consultants to leading fashion and cosmetic organizations, they bring their experiences to VLP to lead a workshop ("Enhancing Your Image") for women seeking to enter the corporate culture. They have been very successful in recruiting businesses to donate jewelry. A new addition to the employment model.

James Campbell

A veteran of WWII, Mr. Campbell is the President of the 369th Association (Manhattan). He provides office support and, more importantly, an enduring morale boost for the candidates in the program.

Ruth Ende

A retired bookkeeper who has been a volunteer at the VLP for six years via the Retired Senior Volunteer Program (RSVP). She maintains our general ledger, reconciles the bank statements and "keeps us on our toes."

program overview

- 30-Day, Eight to 12 Hours a Day

- System of Workshops, Assessment, Competency Drills and Oral and Written Presentations -- **The M.O.N.E.Y. Model**

- 59 Specific Outcomes Required for Graduation, Among Them:

  - **The 35 Most-Asked Job Interview Questions** (Derived From Career Management/Corporate Management Outplacement Model Developed and Donated to VLP by Dr. James J. Gallagher)

  - **The Structured Interview** (Also by Gallagher) Enables the Participant to Engage Interviewers on Basis of Skills, the Experiences Which Substantiate the Skills, and Areas of Opportunity

the m.o.n.e.y. model

marketability: Identifying Marketable Skills, Target Industry and Three Firms

ownership: Owning the Past, the Present and the Future

navigation:
Career Research -- Targeting the Right Job
Networking and Telemarketing Skills
Structured Presentation and the 35 Questions
Job Search and Interviewing Skills
Closing the "Deal"

equipment:
Customized Presentations
FAX, Answering Machines and Support Systems
Business Attire - via Brooks Brothers
Computer Literacy - the IBM Learning Center,
via the IBM Corp. and Lotus Development Corp.
- Produce Resume
- Intro and Thank You Letters
- Lotus 1-2-3 Family Budget
- Lotus CD-ROM and Paradox Data Bases

you:
Self-Leadership
Commitment
Self-Discipline
Overcoming Obstacles
Leadership Demonstration
Payback

277

the 35 most-asked job interview questions

278

1. Tell me something about yourself?
2. What are your strengths?
3. What are your weaknesses?
4. What kind of job are you looking for?
5. Are you willing to travel (relocate)?
6. Why are you changing fields (careers, jobs)?
7. What kind of jobs have you had?
8. Why are you interested in this field? This company?
9. What are your short term objectives?
10. What have you done to reach those objectives?
11. How would you solve this problem: _____?
12. What do you know about our organization?
13. What was wrong with your last job?
14. What is your salary range?
15. What are you doing now?
16. Why would you like to work for our organization?
17. What can you do for us that someone else can't?
18. What do you look for in a job?

19a. How would you describe your management style?
b. How would others describe you?
c. How would you describe your skills?
d. What kind of an employee would you be?

20. How long would it take you to make a meaningful contribution to our firm?
21. Under what type of management do you perform most effectively?
22. What things have you been most consistently praised for by your supervisors ? Criticized for?
23. Describe what you feel to be an ideal working environment.
24. How would you evaluate your present organization (previous position)?
25. What do your co-workers/friends think of you?

26a. In your last position, what were your three most significant accomplishments?
b. In your career to date?

27. Why haven't you found a new position before now?
28. Can you work under pressure, deadlines, etc.?
29. In your last position, what problems have you identified that had been previously overlooked?
30. Have you kept up in your field? How?
31. What was the last book you read? Movie you saw? Favorite T.V. program?
32. How would you describe your own personality?
33. Are you a leader? Give examples.
34. If you could start your career over, what would you do differently?

35a. According to your definition of success, how successful have you been so far?
b. How successful do you want to be?

the structured interview

r&r: to be remembered & referred

43

introduction: Good morning/afternoon. My name is _____, and as I mentioned when we spoke, _____suggested I speak with you . . .

level: . . . because I'm presently exploring new opportunities in the field of _____.

decompress: However, _____ gave me no reason to believe that there is a job for me in your organization, or that you might know of one elsewhere . .

explain: . . . but _____ did say that you might be helpful to me. I'm looking for a (new) situation, perhaps in an area you might be familiar with, where I can find a (new) challenge for my skills.

agenda: Today, I'd like to do two things:

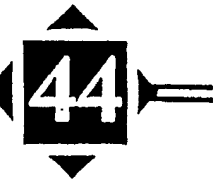
1. Tell you about my skills
2. Talk to you about:
   - Your views on the industry . . .
   - Your experience in _____ . . .
   - Your perspective on _____. . .

. . . so I can pick up some suggestions about where a person like myself should explore further.

question: Could I start with my background?

the structured interview

r&r: to be remembered & referred



summarize: I'm a _____, and for the past _____ years I've worked in _____ (management, administration, finance, etc.) positions within the _____ industries.

specific example: Most recently, I've graduated from the Leadership Program, one of the top _____ .

discuss skills: Throughout this and previous experience with _____, I've developed skills that are based on three strengths:

_____ (skill #1)
_____ (skill #2)
_____ (skills #3)

I'd like to use these as a framework for telling you about my specific experiences: Could I begin with (skill #1)?

skills/exchange/ develop rapport:

you talk about:	question them about:
Example of skill #1	Personal Career
Example of skill #2	Industry
Example of skill #3	Advice; Personal Network

important: remember to listen!

referrals: I want to thank you for taking this time with me today. Just as _____ (person who referred you) sent me to you for some advice, is there anyone you might know of who could help point me in the right direction?

Business Executives
for National Security, Inc.
601 Pennsylvania Avenue, N.W.
Suite 700
Washington, D.C. 20004-2602
(202) 737-1090

Statement of John B. Caron

Business Executives for National Security

before the

Defense Conversion Commission

Groton, Connecticut

September 17, 1992

Members of the Commission, thank you for inviting me to appear before you today. I am John B. Caron, Chairman of the Connecticut Chapter of Business Executives for National Security (BENS). BENS is a national non-partisan organization of around 2000 business executives who support cost-effective defense policies. I am also a textile manufacturer. I want to commend you for holding these hearings today. Defense conversion is a critical issue, not just for Connecticut, but for our entire country.

My testimony can be summarized in several key points:

1) Politics should be removed from the conversion process. Our decisions should be based on the long-term good of the country, not short-term political considerations.

2) The Commission should consider creating a new type of G.I. bill to assist retiring military personnel and displaced defense workers.

3) The Commission should support programs that provide low-cost capital and other incentives to small businesses weathering the defense transition.

4) Resorting to arms exports is a misguided short-term solution to these problems. The resulting regional instability may be more costly in the long run than the short-term benefits accompanying arms sales.

5) Procurement reforms, especially the Pentagon's greater use of commercial products, can help ease the defense transition.

6) The Commission should consider reforming environmental regulations and other rules that impede the military base closing process.

My biggest concern with the defense conversion process is that short-range politically-motivated thinking is dominating our decision making. Jobs are the issue. Everyone seems to agree that we must scale down defense expenditures from Cold War levels, but this is an election year so few political leaders are willing to cut

CARON INTERNATIONAL

8 LAUREL LANE, GREENWICH, CT 06830 · TEL: (203) 661-2907 · FAX (203) ~~869-8572~~ 661-2907

Sept. 24, 1992

Mr. David J. Berteau
Chairman
Defense Conversion Commission
1825 K Street NW
Suite 310
Washington DC 20006

Dear Mr Berteau:

A paragraph was inadvertently left out of my testimony before your Commission at Groton on Sept. 17. Please insert it on page two where I have the red X.

The paragraph reads;

We were fairly successful in taking politics out of the base closing process. A base closing commission made the recommendations and then Congress voted yes or no on the entire package. I would like to see a similar yes or no vote process on the defense budget. We can get much of the pork barrel out of the defense budget and speed the conversion process by having the President and Congress set the total amount of the defense budget and then tell the Pentagon, they are the experts, to decide how to best spend this reduced budget to best protect our national security. The pork barrel would be the first to go.

Thanks for your attention and questions at the hearing. It is a good example of the democratic process at work.

Sincerely,

John B. Caron

mch 9/23/92

John B. Caron

jobs in their state or district. In Connecticut, another $2 billion has been approved for production of the Seawolf submarine. Similarly, Congress has released funds for the V-22 Osprey tilt-rotor aircraft despite Defense Secretary Cheney's opposition to the system. The B-2 bomber is an ideal weapon in an election year as parts of it are built in 48 states. Politically motivated decisions are preventing reductions in reserve forces and also delaying the base closing process—witness the many delays surrounding the closing of the Philadelphia Naval Shipyard. We must get short-term politics out of decision making and look at the long-term needs of the country.

We need to maintain jobs, but this is an expensive way to do it. Scaling down of the defense budget is inevitable. It must be done sooner or later to reflect changing threats. Why postpone the inevitable? Continuing to produce unneeded weapons has only resulted in costly delays that hamper our ability to respond to this new environment.

APPROACHES TO THE DEFENSE TRANSITION

Can we make the cuts cold turkey or should we proceed more gradually? After WWII, the economy converted quite rapidly from wartime to civilian production, but there was an enormous pent-up demand for civilian goods. Today, this demand is not present. As this past Sunday's New York Times noted: "people are scared to death of the transition. With the economy expanding so slowly, a job lost could mean no job at all for a long time."

Two approaches have been suggested for a transition to a civilian economy. One approach involves complete reliance on market forces; the other method entails supporting the transition through federal subsidies. One of the factors that facilitated conversion after WWII was the G.I. Bill. We effectively converted millions of men and women to productive civilian lives. The upgrading of skills proved to be one of the best investments this country ever made.

People in today's defense industry are the equivalent of the returning G.I. of WWII. Just as the G.I. gave years of his life to his country, we now have returning servicemen and women and defense industry workers who must be recycled into a civilian economy. We should establish a new type of G.I. bill for these individuals.

Some of these people are young enough to take advantage of the educational opportunities of a new G.I. bill. Many are older, but have skills that our country needs. We should make those skills available to emerging companies on a subsidized basis to help them build a solid base for the future. These former defense workers could be given vouchers redeemable by the hiring company where the government could pay part of the salary for a fixed period.

Job retraining is frequently mentioned, but the key question is retraining for what jobs. Big companies have better resources to plan and adjust. Small businesses will have more difficulty--this is where the problem will be most severe. Governmental efforts should focus on this sector.

There are two key elements in a company that is changing its strategic direction from defense to commercial production. The first involves business strategy. A company can decide to produce different products for different markets by relying on existing technical skills or through aggressive marketing. The government can't help with these entrepreneurial skills.

The second key element involves capital, a major problem for small businesses. Banks, especially those in New England, are increasingly risk-averse. Yet, at the same time, these small businesses need low-cost loans, grants for the cost of start-up training, R&D tax credits, and accelerated depreciation—all to help them convert from defense to civilian production.

CONNECTICUT'S EXPERIENCE

We have much at stake here in Connecticut. Our state will lose more jobs as a percentage of employment than any other state. I think we have done as much or more than any other state to plan for this harsh readjustment.

The Connecticut Department of Economic Development helps businesses apply for planning aid that is available through the Pentagon's Office of Economic Adjustment (OEA). The Department also provides a consultant pool, marketing studies, worker retraining, and funding for product development. Finally, it runs the Defense Information Services Network, which aids defense-dependent companies searching for new defense contracts.

Connecticut Innovations, Inc., is a semi-private firm that provides risk capital for retooling production lines. SEATECH, the Southeastern Area Technology Development Center, provides low-cost office and light manufacturing space.

These efforts are all evidence that Connecticut has recognized the serious of the problem. However, the scale of the problem far outweighs our resources. This is a national problem, not just a state-wide issue. We need to do much more that simply help contractors search for new defense contracts. This is only a short-term solution as the size of the defense pie keeps getting smaller.

RECOMMENDATIONS

In addition to the points I raised above, I have some recommendations of a miscellaneous nature:

1) Increased arms exports will not solve our defense transition problems

One partial solution suggested by many involves increased export of arms. Last week's decisions to sell F-16s to Taiwan and F-15s to Saudi Arabia cheered the communities where these systems are produced.

I want to speak against this policy as short-sighted and counterproductive over the long run. Arms sales are destabilizing and almost inevitably lead to a

costly arms buildup in volatile regions such as the Middle East. Exports are also insufficient to fill the capacity lost by reduced defense spending, so they can't solve the problem of overcapacity. It is awkward for us to try to discourage other nations from selling armaments around the globe when we are the world's largest arms exporters.

2) Procurement Reform

The BENS Commission on Fundamental Defense Management Reform recently completed its report. The Commission was chaired by former Deputy Secretary of Defense Roswell Gilpatric and included a number of distinguished Commissioners, including General David Jones, former Chairman of the Joint Chiefs of Staff, General Andrew Goodpaster, former Supreme Allied Commander of NATO, as well as Robert McNamara and Elliot Richardson, former Secretaries of Defense.

One of the Commission's recommendations related to the shift toward a civilian economy involved greater use of commercial products in military items. For example, computer chips used in commercial products are just as effective as those used in military goods. But the Pentagon still buys many goods based on complex and often unnecessary military specifications. Of the 50,000 DoD accepted standards, 34,000 are military specifications. Of these, 20,000 are for products and processes that could be replaced by commercial ones. We support DoD's ongoing efforts to examine this issue, but we would like to see even greater preference given to commercially-available products. This will not only save money, but will also help the transition to a civilian economy.

3) Improve the Base Closing Process

One often-neglected aspect of defense conversion involves the re-use of former military bases. Unfortunately, this process is being slowed by environmental restrictions which prevent businesses from re-using the sites. Few

companies will risk taking on an environmental clean-up problem that is not of their own doing. If the government caused the problem, it should indemnify the future users of the property from the cost of an environmental clean-up.

CONCLUSION

In closing, let me emphasize that we are facing a severe crisis in this country. We have a debt that is a severe threat to our future well-being. Defense expenditures are only a part of the problem, but they are the component that this Commission is trying to address.

It is inevitable that defense spending will be cut as the nature of the threats to our national security change. Instead of spending money on politically motivated defense job maintenance, we must redirect expenditures to long-term needs in rebuilding our civilian economy. Let's get the politicians out of this critical decision making process.

I realize that political considerations are often a practical reality that must be faced, but the Commission must consider the big picture, recommending what is right for our country rather than what is politically expedient.

STATE OF CONNECTICUT

DEPARTMENT OF ECONOMIC DEVELOPMENT

JOSEPH J. McGEE
Commissioner

Lmcl 10/5/92

September 24, 1992

To the Members of the Defense Conversion Commission:

My name is Joseph J. McGee, Commissioner of the State of Connecticut's Department of Economic Development. Thank you for the opportunity to present testimony from Connecticut regarding the effects of federal defense budget cuts on Connecticut's economy, and how the State of Connecticut is working to mitigate the impact of reduced defense spending.

Introduction and problem statement

Connecticut has always received a high level of defense contract awards per capita, and those defense dollars have contributed significantly to Connecticut's prosperity. The defense industry has been a lucrative one for Connecticut, bringing in dollars, jobs, new technology, and paying for research and development. Despite the benefits of defense work, Connecticut's high level of defense dependency has also proved problematic when Connecticut has been faced with defense cutbacks following the end of World War II, the Korean and the Viet Nam conflicts, and now again as the federal government is scaling back the defense budget.

Defense manufacturing has been the backbone of industrial development in the state, with approximately 25% of Connecticut's overall manufacturing base directly or indirectly dependent on defense contracts. Advanced manufacturing processes have been developed in Connecticut, paid for by defense contracts, in response to the military's requirements. Successful service companies have also developed to provide services to military installations and defense prime contractors in the state, and the "ripple effect" of military spending through prime and subcontractors, and service providers has been felt throughout Connecticut's economy.

In terms of defense contract dollars per capita, Connecticut has consistently ranked in the top five among all states. The state average for the years 1987 through 1989 was $1,651, over three times the U.S. average of $541 for the same period. For federal fiscal year 1991, the state per capita was $1,515, which placed Connecticut first among all states. In federal fiscal year 1989,

865 Brook Street, Rocky Hill, Connecticut 06067-3405. Phone: 203/258-4201
An Affirmative Action/Equal Opportunity Employer

New London County had defense contract awards in excess of $9,500 per capita; a rate that places the New London County among the most vulnerable areas in the country.

Connecticut received $4.9 billion in defense contracts during the 1991 federal fiscal year, which represented a 17% increase over 1990. However, even as these defense dollars poured into the state, major defense programs which supported thousands of prime and subcontractors were being cut, such as the Seawolf Submarine, and Textron's M1 tank engine. We knew that these cuts would affect our economy severely, and that the future would hold more drastic defense budget cuts. In response to what we saw happening to the defense budget, over the past two years, Connecticut began to make investments in defense diversification activities and in improving our manufacturing infrastructure.

Connecticut stands to take a significant hit in total gross state product due to projected defense cutbacks, and we are taking measures to blunt the drastic impact these cutbacks will have on our economy. By some estimates, Connecticut stands to lose 44,000 jobs by 1997 due to defense cuts. This, coupled with the 180,000 jobs Connecticut has already lost in the current downturn, represents a real threat to the long term viability of the state's economy.

Connecticut's strategy for mitigating the impact of decreased defense spending

Connecticut is working hard to diversify its entire economy, along with helping individual companies diversify. We know that it is important to follow a two-pronged strategy with our manufacturing sector. We must address competitiveness issues in the state which impede Connecticut companies from winning defense and other contracts, and thereby help defense companies capture a bigger piece of the shrinking defense budget. We must also help companies in their efforts to diversify their operations through non-defense federal procurement and into other commercial markets.

Connecticut has undertaken a massive effort to improve its business climate. Working through a consortium of banks, utility companies, state and local development agencies, the legislature, organized labor, and academia, we are making Connecticut a great place to do business. We are actively recruiting non-defense companies into the state to help diversify our economic base, and to bring new jobs to Connecticut. We are working on developing better working relationships with federal agencies, and to coordinate our programs and services for more efficient service delivery.

Connecticut has begun to streamline its governmental processes, and we have undertaken public/private partnerships to increase access to capital in the state. We have made $350 million in state bond funds available to leverage private investment, and are aggressively making investments in companies to save and create new jobs. Our money is being used to upgrade machinery, equipment, to accelerate new product development, and to train workers to upgrade their skills. We have made major investments in education, supporting the creation of two Centers of Technological Excellence: a Precision Manufacturing Center at UCONN and a Theoretical and Applied Neuroscience Center at Yale. We are presently seeking proposals for an additional three centers.

We are working to make Connecticut a premier manufacturing state. Connecticut is undertaking a Manufacturing Technology Deployment study to identify the manufacturing resources presently available in Connecticut. We are polling manufacturers to learn about their requirements for services and programs, identifying where the gaps in service exist, and then creating programs and services necessary to meet those gaps. We have recently applied for a National Institute of Standards and Technology Planning grant to assist in the better coordination of the Federal, State, Local, and private manufacturing assistance programs now in place in Connecticut.

The Department of Economic Development, with help from an Office of Economic Adjustment grant, recently conducted a survey of our defense subcontractor base. Subcontractors have historically been a difficult group to identify, and little was known about them before we conducted this survey. The survey was an attempt to quantify the scope of defense dependency among our subcontractor network, and to seek information regarding what these companies felt were their biggest barriers to diversifying their operations. We experienced a very high response rate to our survey (49%), which indicated to us that there was a lot of interest and concern on the part of subcontractors about their defense dependency.

As many as 1,500 or 32% of Connecticut's manufacturing establishments (with employment of 5 or more), reported that they have ties to the defense industry, primarily as subcontractors or as prime contractors who also do subcontracting. We learned that there may be as many as 400 firms statewide with defense dependency in excess of 50%. These high dependency firms were most likely to be found in the durable manufacturing sector. New London County had the greatest proportion of high-dependency firms followed by Fairfield and Hartford Counties.

Subcontractors identified access to capital, and to marketing and strategic planning assistance as their biggest hurdles in diversifying their operations. Over half of the defense firms

reported that they would need assistance in those areas, and 60% of the respondents indicated that they felt that both the federal and state governments should assist business in diversification efforts. Many subcontractors have always had one customer, and have become expert at meeting the needs of defense agencies. Now these same companies have to figure out what consumers want, and how to make a product for a price that is within reach of the average consumer. Procurement practices, and requirements for high quality products that can withstand battlefield conditions, create the need for an expensive production process. Defense companies have to change the way they manufacture to drive their production costs down low enough for the average consumer to buy their products.

Connecticut has been among the most aggressive states in developing programs and services to assist companies in defense diversification efforts. We know from the subcontractor survey and monthly meetings with the top prime and subcontractors in the state that it is extremely difficult for companies to make the transition from defense work to commercial work. These companies have traditionally not had the need for marketing, or new product development skills. They have always had one major customer, who gave them specifications for products they needed made.

In response to the gaps in expertise needed to enter commercial markets, the state is providing $22.5 million in a special defense diversification fund for outside consulting help, machinery and equipment upgrades, research and development to encourage new product development, and training and retraining for workers. We have learned that it takes an enormous amount of capital, and time, for companies to identify new markets and new product development opportunities. Companies have to find alternate work as military contracts are cut, to maintain their work forces long enough to make the transition to commercial work. This is a very difficult process. We know that a culture change must occur among top management before defense companies can successfully diversify into commercial markets.

Last year, Connecticut established The Defense Information and Services Network (DISN), within the Department of Economic Development. The DISN helps defense firms explore alternative markets and new business development opportunities, and is a clearing house for information and services. The network acts as a non-partial broker for state and federal agencies and private firms that offer support programs and financial assistance, and helps defense dependent firms get information on public and private sources of funding, marketing, marketing research, and other services to assist them in investigating other markets and products. The DISN offers a referral program, a free newsletter, diversification workshops, and field consultation. Clearing house participants consist of individuals and companies with expertise in brainstorming, technology transfer, market research,

diversification, acquisitions, strategic alliances, proposal writing, legal and financial consultation, and new product development.

Connecticut also has a Defense Support and Diversification Program located in Governor Weicker's Washington office, which seeks to win federal funding, contracts and jobs for Connecticut. The program's director has years of experience in the defense industry, and in government. He is presently conducting an inventory of Connecticut's manufacturing, research and technological capabilities, to be able to match companies with federal procurement interests, programs, funding, and technology transfer opportunities. The program also seeks to develop a non-defense marketing presence in Washington and to find federal support and funding for increasing the competitive performance of Connecticut's manufacturing base.

We have recently begun plans to facilitate the development of Flexible Manufacturing Networks among Connecticut manufacturers. We have set aside a $1 million State fund to begin to build a program to encourage small contractors to share resources and facilities to enhance their competitive position. We are working to promote teaming and joint ventures among companies to win contracts, where companies with complementary skills collaborate to strengthen their bids. We are promoting the idea of companies working together to buy raw materials, to allow them to get lower rates for bulk orders. Plans for this network also include helping companies find new markets abroad for their products and manufacturing capabilities. The Department of Economic Development is also accessing the federal Department Of Commerce's State Initiative Program to help set up these flexible networks.

Connecticut is aggressively setting State Industrial Policy. We are seeking to accelerate the process of product development by making an equity investment in the company, to share the risk with the company. The State investment helps to shorten the company's development process by infusing the company with capital, allowing them to accomplish more development in a shorter period. In return for this shared risk investment, the State gets a 2 or 2.5 times return for its investment over time if the product is successful. The State of Connecticut has money to invest and we are using it to help companies shorten their new product development cycle. We have made three major investments to date in commercial product lines at Textron Lycoming, United Technologies, and Kaman Aerospace, and plan to do others. We would like to partner with the federal government to do more deals of this nature.

Although Connecticut has set aside $22.5 million to assist firms seeking to diversify, we know that this is only a small amount compared to what companies need to diversify. We recommend a

partnership with the federal government to increase access to capital by companies seeking to diversify away from defense dependency. Companies need major equity investments in new product development, and access to debt capital. The federal government could help Connecticut by providing loan guarantees to support private investment, and by partnering with Connecticut in equity investments. We recommend that if a state is providing the high level of support that Connecticut is providing, the federal government should help. No one state can do enough on its own at the level necessary to affect positive change. It will take the help of the federal government to fill the gaps being left by federal budget cutbacks.

We also recommend that the federal government strongly consider a voucher system to support and subsidize the training and hiring displaced defense workers. Defense workers are highly skilled, highly paid, highly educated workers, whose skills are not always readily transferrable to the commercial market. Training and retraining will be a necessary part of their transition to commercial work. Companies should be given incentives to hire displaced defense workers, and to provide them the extra training they will need to do non-defense work. Since the manufacturing base in Connecticut and in the rest of the United States is in need of reinvigoration, we would recommend that these vouchers not be limited to defense manufacturing, but should include all manufacturing.

Connecticut is pursuing a strategy to develop the capacities of local and regional development groups, to leverage state resources, and to help drive decisions down to the level of the users of assistance. We are looking to localities to define their strengths and weaknesses, and to identify their needs. Southeastern Connecticut is one of the most defense dependent regions in the United States. We have worked with officials from this region, providing both financial and technical assistance in their regional planning process, and they have had some success in forming a regional strategy. Two regional development entities have emerged from their efforts: the Corporation for Regional Economic Development, a 21-town Council of Governments; and TECHCONN (Technology for Connecticut), formed to support the creation of a significant new industrial base in private industry, and the resulting jobs for displaced defense workers, through emerging energy, transportation, and environmental technologies. We need federal help in continuing to financially support these and other regional efforts.

There is a tremendous amount of technology which has been largely developed through military contracts, which is being held captive in federal labs, and within large prime contractor companies. These new technologies and product ideas may not represent a big enough market potential to meet the internal rate of return required by corporations in order to exploit the technology, but

it could represent a wonderful opportunity for creating a new company. Large companies need to be encouraged to spin off technologies. The federal government must do a better job of getting technologies out of its labs and out of its prime contractors, and out into the commercial marketplace, where it could create jobs and wealth.

Connecticut enacted a research & development tax credit last year, to encourage companies to improve their manufacturing processes and to develop new products. We strongly urge the federal government to institute an R&D tax credit. Competitiveness is a major issue for this country. Defense contracts provided a significant amount of the R&D money spent in this country, and the federal government should redirect some of these defense dollars into other research & development opportunities for companies.

Summary

I appreciate having had the opportunity to share some of what Connecticut is doing to reduce the devastating impacts of sudden, severe reductions in defense spending, on a state with such a high level of defense dependency. Diversification and new product development takes time. It also takes a sustained effort, and more money than any one state can afford to provide on its own. I encourage and challenge the federal government to partner with the states, provide access to capital and loan guarantees, and programs to support defense companies trying to diversify their operations, and manufacturing in general. Connecticut needs time to formulate and implement strategies to help our companies become more competitive and win a greater share of federal contracts, and to help companies move into new product development and new markets.

(13A)

STATEMENT OF

MEL OLSSON, PRESIDENT

LOCAL 571 OF THE

UNITED AUTOWORKERS INTERNATIONAL UNION

ON THE SUBJECT OF

ECONOMIC EFFECTS OF CUTS IN DEFENSE SPENDING

BEFORE THE

DEPARTMENT OF DEFENSE
DEFENSE CONVERSION COMMISSION

The membership of MDA-UAW Local 571 is a valuable resource to the region. These highly educated and trained designers, technical and administrative aide personnel provide a natural base for high tech diversification. Many represent a unique technology base that cannot be replaced and have worked on nuclear power plants, non-nuclear plants, chemical plants, off-shore drilling platforms and many types of surface ships. They are trained in the latest computer aided engineering and design technology. To train these workers to adapt to a new product line would be minimal. The industry which could be attracted to our area by marketing these skills are desired by most towns. We must maintain our skilled work force in design and engineering. Once this group has been dispersed out of the area due to the defense cuts. We will not be able to retrieve them.

With the proposed defense cuts, massive layoffs in the area are inevitable. These layoffs will effect everyone from the skilled craftsman at Electric Boat to the cashier at the grocery store. The skilled workers remaining in the area will be forced to take lower paying service jobs with minimal or no benefits, thus lowering their buying power and standard of living. Those workers leaving the area will have to sell homes or vacate rental properties thus reducing property values which have already been hit hard by the sluggish economy. There will also be families struggling to make mortgage payments while on unemployment or working for a fraction of their normal wage resulting in increased home foreclosures in this area. The effects will not only be felt by the displaced workers and their families but by the whole community. The high quality of the schools and health care in the area will decline. The effects of the defense cuts will be devastating to the local economy throwing thousands of lives into chaos and uncertainty. These veterans of the cold war are deserving of much more respect than that.

Retirement benefits are also a major concern of long term defense workers. With corporations downsizing and restructering, retirement money set aside may become vulnerable. Congress is considering a bill aimed at the laid off or terminated defense worker, age 55 or older with at least 10 years of service. The bill would have the contractors pay these workers their normal unreduced retirement benefit, plus a special pension of $500.00 per month to be paid until the individual reaches the age of 62. This bill would greatly reduce the economic effects of defense cuts on these long term defense workers. We also need strong laws to prevent corporations from using money set aside for retirement for any purpose except retirement even in the event of bankruptcy. Another policy that would help reduce the economic effect of defense cuts would be to allow displaced defense workers access to their stock option plans or IRA's without having to pay any tax penalties.

One obvious problem is the Defense Department awarding contracts to foreign competitors. An example of this is the Army awarding a $10 million dollar rifle deal to an American subsidiary of a Belgian gun company. With Colt Firearms, one of the original manufacturers of firearms, on the brink of bankruptcy. The Army should have given consideration of keeping the monies on American soil. The effects of not doing so will force a cut back at Colt, probably in the form of periodic plant shutdowns starting in October. This announcement was made August 20th and as of today 250 people are laid off due to this decision. Was it worth saving $9.00 per rifle while our industrial base goes belly up with the corresponding loss of local and federal taxes?

Diversification to provide other technical work is a worthy goal, but it will not solve the communities problems for eight to ten years - depending on the success of any initiatives. Our immediate, and only hope to maintain our unique technical base, is to hold the current scheduling for the new submarine design and thus lessen the impact of unemployment in this area.

In conclusion, MDA-UAW Local 571 wishes to thank the Commission for the opportunity to address it's concerns regarding the economic effects of defense spending cuts on our members at Electric Boat and their families. Southeastern Connecticut has many natural resources with a wealth of highly skilled and well educated design and engineering personnel, lets keep this resource working for a strong America.

(13B)

STATEMENT OF

KENNETH DELACRUZ, PRESIDENT

METAL TRADES COUNCIL

ON THE SUBJECT OF

ECONOMIC EFFECTS OF CUTS IN DEFENSE SPENDING

SEPTEMBER 17, 1992

The Metal Trades Council consists of 8,300 highly skilled submarine builders. Working under the strictest quality standards, we build one product "the finest submarines in the world". From the drawing board, we create one of the world's most technically advanced weapons system known to man.

Electric Boat is the largest employer in Southeastern Connecticut. With the recession at hand, dramatic cuts has the potential of transferring this area from a recession to a depression, impacting this area both socially and economically. Not only are the employees affected but the community, state and federal government will also be influenced. Some 559 million dollars in payroll is issued annually. This is spent in the community for food, clothing, automobiles, insurance, homes, hospitals, and recreational activities. Cutbacks would even affect the local United Way of which Electric Boat employees donate almost $700,000 dollars annually. Organizations and agencies who give aid and assistance would be stretched to the breaking point.

The main issue that gets lost in the statistics and graphs is the human element. With unemployment comes fear. The fear of one's ability to provide for oneself and family, to pay the rent or mortgage, put food on the table, pay for insurance, the ability to obtain another good paying job with benefits - these are some of the factors that are involved. Training is essential but there must be a job potential after the retraining.

Under C.O.B.R.A., laid off employees are able to carry insurance. The difficulty is that we have to pay the full premium of $400 per month. As to

mortgage and rent, defense workers should be allowed limited relief such as the G.I. Bill.

Unlike planes and tanks, submarines have been prohibited from foreign sales. Non-defense shipbuilding virtually does not exist due to the fact that other countries subsidize shipbuilding and we are not able to compete. Conversion isn't easy, but it isn't impossible.

Since Electric Boat is a nuclear facility, we possess the ability to build propulsion systems and power generating systems. Some of the possibilities are infrastructure work such as high speed trains, sale of submarines to foreign countries, underwater exploration and research. In addition, we are also able to perform work on space stations and exploration

With the recession, established businesses are having a difficult time surviving, trying to diversify into the established businesses will be difficult.

The N.A.F.T.A. Agreement is a particular concern of mine due to the fact that companies are driven by profit. American companies will cross the border to seek higher profits. Unfortunately, workers of this country are considered a disposable commodity. Large companies will survive and small businesses will be affected the most leaving a wake of unemployment in this country.

Many people in the workforce are well trained in various trades and are graduate apprentices. The experience and expertise, if not saved, could be the loss of the submarine industrial base. With the cuts in defense spending, the money should be utilized in retraining and job development for the disabled workers or the Government will create another problem.

On behalf of the Metal Trades Council I wish to thank the Commission for the opportunity to speak to you regarding our concerns.

→ Gregg

The New England Council, Inc.

1620 Pennsylvania Avenue, N.W., Suite 1000, Washington, D.C. 20004 (202) 639-8955 • 681 Boylston Street, Boston, Massachusetts 02 [illegible]

September 15, 1992

Colonel Steve Jones
Deputy Director
Department of Defense,
Defense Conversion Commission
1825 K Street, NW Suite 310
Washington, DC 20006

Dear Colonel Jones:

Thank you for the opportunity to appear before the Defense Conversion Commission in Groton, CT, on September 17, 1992.

Attached is a short biography of Peter Meade, president of The New England Council, as requested. He will not need any additional support for his testimony.

If you have any questions or concerns, I can be reached at 202-639-8955.

Sincerely,

John R. Ryte
Vice President, Legislative Affairs

PETER MEADE

Peter Meade was named President & CEO of the New England Council in June of 1992.

Prior to joining the Council, Mr. Meade was the host of WBZ Radio's Morning News program. He had been with WBZ since 1983 where he began as a weeknight talk show host. Mr. Meade has interviewed Presidents Ford, Carter, Reagan and Bush. Other prominent guests on his WBZ Radio talk show have included Bob Hope, Chuck Yeager, Coretta Scott-King, Casper Weinberger, Judge Robert H. Bork, and the late Reverend Ralph David Abernathy. Meade has won the prestigious International Radio Festival Gold Medal Award and several awards from the Associated Press.

Before his career at WBZ, Mr. Meade was Vice President of Warner-Amex Cable. He was also active in Boston politics including serving as Public Safety Coordinator for the City of Boston during federally ordered school integration, as Parks & Recreation Commission for the City of Boston, and as a one-time candidate for Massachusetts State Auditor. Meade was also founding director of the Boston Community School program.

Peter Meade is a native of Boston. He was educated at Cathedral High School and holds a B.A. in Communications from Emerson College.

(1-1)

TESTIMONY OF PETER G. MEADE
PRESIDENT
THE NEW ENGLAND COUNCIL, INC.

TO

THE UNITED STATES DEPARTMENT OF DEFENSE
DEFENSE CONVERSION COMMISSION

SEPTEMBER 17, 1992

TESTIMONY OF PETER G. MEADE
PRESIDENT
THE NEW ENGLAND COUNCIL, INC.

Good afternoon Mr. Chairman and members of the panel. On behalf of The New England Council and our hundreds of New England business members, I would like to thank you for the opportunity to testify here today on issues of great importance to our regional economy.

My name is Peter Meade, and I am President and Chief Executive Officer of The New England Council Inc., the nation's oldest regional business organization. Founded in 1925 by local business leaders and the six New England governors, we believe the Council today is one of the country's premier examples of regional cooperation between the public and private sectors.

Since its beginning, the Council has dedicated itself to improving the economic vitality and the overall quality of life in our six state region.

Today, we are deeply concerned about the effect that the continued down-sizing of the Pentagon budget will have on people who are underemployed and precariously employed in our region. Because of this concern, the Council last year formed a Task Force on Defense and Regional Prosperity, with Senators Chris Dodd of Connecticut and Bob Smith of New Hampshire as our Senate chairmen, and Representatives Nick Mavroules of Massachusetts and Ron Machtley of Rhode Island as our House chairmen.

We have worked closely with our Senators and Representatives to examine the issues and develop productive responses to the impending spending cuts, and while I do not today purport to speak on behalf of our members of Congress, I would like to share with you some New England Council perspectives.

Defense and Overall Employment

I want to emphasize that the impending cuts have an impact not only on the traditional defense "community," but on thousands of other New Englanders as well - the machine tool contractor, the service provider, the real estate agent, the local grocery store owner - people whose livelihood depends in some way on the health of the defense industry.

According to the Department of Defense and Department of Labor, New England's defense and aerospace industry, and its network of contractors and vendors, provides more than 234,000 jobs in our region. Adding active military and civilian personnel, approximately 296,000 New Englanders are directly involved in the region's defense and aerospace industries.

Connecticut, for example, ranks third in the nation in percentage of work force employed in defense, aerospace and related industries; Massachusetts ranks seventh.

In fiscal year 1990, Pentagon spending accounted for $17.3 billion in total expenditures in New England. The New England states rank nationally as follows in percentage of total defense spending received:

* Connecticut - 6th;
* Massachusetts - 9th;
* Maine - 11th;
* New Hampshire - 17th;
* Rhode Island -19th;
* Vermont - 27th.

The Defense Budget Project, a non-profit research and analysis organization based in Washington, estimates that planned reductions in defense spending will affect more than 69,000 New England jobs by 1996; 61,000 of those jobs are in the private sector defense and aerospace industries. Between now and 1993, 31.5 percent of total defense industry related employment in New England will be significantly affected by the continuing reductions.

Clearly, these scheduled cutbacks, coupled with an on-going recession that has severely eroded New England's economic base and resulted in the loss of more than 500,000 jobs in the past three years, will have a devastating effect. It is estimated that here in Connecticut alone, 35,000 defense-related jobs could be lost during the next four years, many of them right here in the Groton area.

New England's Defense Industry

New England essentially has three types of defense and defense-related employers - prime contractors, sub-contractors, and the research and development community, largely made up of colleges and universities.

In order to help these companies and institutions survive the shift in economic focus that the proposed spending cuts will create, it is our belief that Administration and Congressional attention must be focused on specific programs and initiatives that:

1. Help prime contractors expand their markets;

2. Help transfer defense technology to the commercial sector;

3. Continue federal research and development programs at colleges and universities;

4. Implement expanded or additional federal programs to aid affected communities and re-train displaced workers.

We do not believe that the government needs to find a civilian alternative for every defense contractor and a civilian job for every defense worker. Rather, the government must put in place

those programs that will help us adjust to new budgetary realities as we re-shape our regional economy in a manner that sustains and develops our high-tech and manufacturing capability.

Allow me to briefly address each of my four suggestions.

Expanding Markets: The Need for a Loan Guarantee Fund

Contrary to the impression that might be created by the label "prime defense contractor," our New England Council prime defense contractors are already highly diversified international companies.

By way of example, United Technologies, headquartered here in Connecticut, manufactures Otis elevators, Carrier air conditioners and a wide variety of automobile parts and systems, in addition to their well-known work in the defense area.

Raytheon Company, headquartered in Massachusetts, is perhaps best known for their defense work, but they are also a highly diversified company, manufacturing gas stoves, KitchenAid dishwashers and Beech aircraft, as well as managing several major construction companies.

With all due respect, these types of companies do not need government help or guidance in further diversifying their product lines. But they do need government support in one critical area - expanding markets for their products.

The first and most important thing this Administration can do to begin the defense economic conversion process in earnest is to strongly support Congressional efforts to establish an export loan guarantee fund at the Department of Defense.

Currently, other defense exporting countries, such as France, Great Britain and Germany, offer attractive and highly competitive financing packages for defense sales, but the United States does not. This puts American defense manufacturers at a significant disadvantage when competing for foreign sales against manufacturers with government-backed loan guarantee funds.

This disadvantage translates to lost American jobs. For example, a U.S. contractor recently beat out German and British competitors for a $1 billion contract to deliver armored personnel carriers to Turkey. However, because the German and British governments were willing to provide export credit guarantees, the 30,000 man-years of work to actually build the carriers will be performed under license to the British and German firms, and the American contractor will receive only royalties, not jobs, for the work.

In another situation, an American and a French firm were competing for utility helicopter sales to Colombia and Venezuela. In Colombia, the State Department certified that the helicopters would be used in non-military drug eradication programs, thus qualifying the sale for Export-Import Bank loan guarantees. The American firm won the contract.

But, in Venezuela, the State Department could not make the same guarantees, so no loan guarantee program was available and the French firm won the contract.

Mr. Chairman, in the wide variety of issues and proposals discussed by member company representatives of our Task Force on Defense and Regional Prosperity, a loan guarantee program has been identified consistently as the single most important, productive element in helping New England companies adjust to the changes currently taking place in the defense industry.

Let me make clear that we are not suggesting the United States become the arms dealer to the world, but The New England Council does strongly support the establishment of a loan guarantee program that would:

* Cover sales only to NATO allies, Australia, New Zealand, Japan and Israel, thus significantly limiting concerns about proliferation;

* Maintain standard licensing and notification procedures, as required under the Arms Export Control Act, as well as Congressional review of all proposed arms sales;

* Establish the fund at the Department of Defense, using Department of Defense funds, subject to Congressional re-authorization on a yearly basis.

At a time when domestic defense spending is declining, United States companies need a level playing field on which to compete with other defense exporting countries. Establishing a loan guarantee program at the Department of Defense will make New England companies more competitive internationally and protect New England jobs.

We ask you for strong Administration support for loan guarantee proposals currently before Congress, and we ask you for that support today, while there is still time to pass such a measure in this Congress.

The End of the Cold War: Time to Transfer Technology

On the issue of technology transfer, there is also a need to move quickly. We must, in order to feed the development and growth of new products and businesses, allow companies commercial access to the technologies developed in their research departments and in federally-supported laboratories.

What we suggest is a two-pronged approach to establish a comprehensive program for regaining America's role as a technology pioneer. First, we must embark on a systematic program to de-classify technologies developed during the Cold War that have legitimate commercial applications and do not pose national security concerns.

Second, we must expand the use of regional manufacturing technology centers to help contractors and manufacturers actually take these de-classified technologies out of the laboratory and onto the production lines.

The New England Council does not profess to know exactly which technologies are appropriate for de-classification, or how to appropriately protect the national security interests that exist in some technologies.

But we do know from past experience in our region that the transfer of defense-related technology from the laboratory to the commercial sector has tremendous potential - Raytheon Company, Data General, Digital Equipment Corporation, EG&G, Signal Technologies, just to name a few, all had their start in federal research and development programs conducted in laboratories here in New England.

The Council has worked closely in the past with the NASA-funded Center for Technology Commercialization in Westboro, Mass., and we strongly support an expansion of similar technology centers that focus on the manufacturing sector.

Some New England manufacturers may need a lot of assistance, others may need just a minimal amount, but right now those companies have little opportunity in our region to receive technology transfer help. In fact, while the Commerce Department has embarked on such a program, to date the entire United States has only seven manufacturing technology centers, and the one nearest to New England is located in Troy, New York.

By way of contrast, Japan has approximately 175 federally funded technology centers for the benefit of manufacturers. Certainly, the New England region, with its wealth of scientific, high technology and academic institutions and businesses, would be a fitting location for one, if not several, regional technology centers aimed specifically at turning defense or defense-related technologies into commercial products.

The laboratory and business infrastructure for such a program already exists, we simply need a mechanism for clearing red tape, matching technologies to manufacturers, and identifying and developing markets.

Research and Development

At the same time we promote the transfer of technology from the laboratory to the commercial sector we must not lose sight of the significant primary employment benefits generated by the fundamental defense and defense-related research and development activities carried on by our colleges and universities.

At present, according to the Congressional Office of Technology Assessment, some 60 percent of our federal research dollars are spent in the defense sector. This spending provides quality jobs now, while the scientific community researches the technologies

and processes to provide additional jobs for the future.

I mentioned earlier the names of several major corporations that got their start in a federal research program. I should clarify that reference by mentioning that each of the companies named got their start in a university laboratory - specifically the Massachusetts Institute of Technology.

No better example exists in our region of the tremendous and tangible benefit to the general public of federally funded defense-related research - MIT programs and graduates, on the basis of defense-related research, have accounted for the start-up of literally hundreds of businesses that now employ tens of thousands of people around the world.

While the type of defense research needed by the United States may well change due to national and international developments, the fundamental value of such research cannot be underestimated. The economic impact on New England of significant reductions in federally funded research would represent a serious setback to an already crippled economy.

We strongly urge the Administration and the Congress to recognize the significant economic and employment benefits created by federally funded research at our colleges and universities, and to support fully the continuance of such programs.

Affected Communities: The Need for Aid and Job Re-Training

Finally, Mr. Chairman, we believe this Commission must look at the impact of plant closings and job losses on specific communities and groups of workers. Towns like Pittsfield and Ayer, Mass., Bath, Maine, and Groton, Conn., are almost totally dependent on the military or the defense industry for employment and tax revenue. The federal government cannot ignore that it to some degree created this dependence; the government cannot now turn its back and walk out of these communities with nothing in its wake.

The New England Council believes there are several things the federal government can do to help ease the transition. First, the process for getting Economic Development Administration funds out to affected communities needs to be speeded-up. EDA programs can help local government officials and regional planning organizations develop programs to attract new businesses and industries, but the EDA programs must be efficient and make money available when it is needed.

Second, we must implement programs to re-train displaced workers and get them back into the workforce as soon as possible. This can be done in the short-term through expansion of programs such as the Job Training Partnership Act, which in 1990 was extended to cover displaced defense workers. That program could be complemented by establishing incentives for employers to provide training themselves or funding for re-training programs.

Another alternative worth consideration is the creation of a worker Individual Training Account program, whereby workers could set aside a portion of their income tax-free to meet future training needs.

The key to success in these ventures, whichever approach is taken, is to act now, before the full impact of the defense spending cuts occurs, before large numbers of workers are laid off, and before we lose the opportunity to have those workers poised to move on to other productive employment.

Conclusion

Mr. Chairman, I cannot stress strongly enough the need for prompt action in implementing short-term programs to aid companies, communities and displaced workers, and the need for equally prompt action in developing a long-term strategy for business and job growth that will allow New England and the rest of the nation to adjust and adapt to changing priorities and spending patterns in the defense industry. There is no time to waste.

The magnitude of these changes is enormous, and so too is the responsibility of the federal government to aid in the process. Action on the four major points I have outlined is critical - we cannot let changes in one sector of the economy steal from the nation the base of its technological and manufacturing capability.

From Defense Specialization to Diversification

Statement of
Louis C. Tedeschi
President
Defense Diversification Strategies, Inc.

As we enter another cyclic downturn in Defense spending, we are again victims of *Defense Specialization*. If we are to learn during this cycle, we should examine the forces that have encouraged that policy and structural changes that are necessary to avert a continuing disaster in having companies over 90% dependent on defense contracts.

When DOD budgets are on the increase, it makes sense to concentrate corporate resources on capturing a share of this expanding market. Diversification under these circumstances are considered diversions from focusing on the higher return on investment alternative. This short-sighted approach is encouraged by the need to create an organizational unit that must deal with mastering the complexity of the DOD procurement process and myriads of military specifications, as well as setting up a stringent and highly scrutinized cost accounting system. Such a unit should be segregated from commercial units which are not burdened with this bureaucratic red tape.

Congressional actions which are aimed at promoting fair competition and equal access to DOD contracts by its constituency, although well meaning, result in further complicating the procurement process and increasing oversight requirements to be sure contractors don't cheat. This paranoia is fed by selected cases of violations by contractor and government personnel. Thus, more resources are used to promote competition and create oversight groups. Eventually, the stakes get higher and DOD contractors must play the game of "you bet your company" in multi-billion dollar procurements of which they must pick the winning team to compete and win to stay in business.

There has to be a better way to use these resources other than betting on the high stakes to stay in and make marginal returns on investment --and there is!

First, Congress and DOD should *discourage defense specialization* by realizing that it eventually damages the economy and probably DOD. The impact on the economy is being experienced and is quite obvious, the impact on DOD is more subtle: by not having diversified companies with expertise in the commercial markets, DOD is not benefiting from commercial competitiveness and current technology. DOD should seek and encourage commercial companies to team with defense companies in bidding on commercial contracts. **They should give preference to companies that are showing progress in diversification, and as a long range goal, deal with companies that are no more than 50% dependent on defense contracts.**

Second, Congress and DOD should *encourage diversification* efforts by:

- expanding the scope and applicability of independent research and development on government contracts to include commercialization projects from initial inception of the concept through market testing to the point that the company must make a launch decision. DOD stands to gain from these effort through the exposure to commercialization and increase of customer base in dual-use technologies.

- provide investment tax credits for capital used in diversification projects. R&D and capitalization tax credits which are being proposed in Congress are critical in reducing risks for start of new ventures.

- provide funding and tax credits for retraining of defense personnel. Personnel are our most flexible resource that also require an investment to change. The trauma of displacement during cutbacks can be reduced by having companies maintain the same personnel through retraining efforts for new positions created by diversification efforts. Training of management in commercial business practices is also critical.

- help defense contractors become more competitive in the commercial market. Defense contractors can become more competitive in the world market. Their strong points include skills in managing complex programs, using quality systems that can readily comply with international standards such as ISO 9000, and a cost accounting system that can provide detailed cost control. They can be assisted in reducing their overhead burdens by reducing the complex and time consuming contracting process and reducing excessive accounting oversight. DOD can promote dual-use technology, critical tailoring of military standards to fit specific needs, and using TQM and value analysis and value engineering techniques to remove unnecessary costs in government contracts.

The more the government can act like a commercial enterprise, the closer its suppliers will be adaptable to the commercial market. Obviously there are legal constraints that will not permit this, but we should examine these impediments and determine the real value which they add in providing effective defense systems in the current environment.

The Hartford Courant
BUSINESS
SECTION B
SATURDAY
AUGUST 22, 1992

Diversification inescapable for defense firms

Robert Weisman

Tens of thousands of jobs could be on the line as Connecticut's defense-contracting infrastructure shrinks during the next five years.

The precise number of workers at risk is difficult to gauge. That's largely because so many state metalworking and machine shops supply both the military and civilian aircraft industries. If the latter picks up, it could partially offset decline in the former.

No one can predict, moreover, how the thousands of Connecticut defense subcontractors will react to the inescapable challenge with which they are now faced: the challenge of diversification.

Many will doubtless fail. Others will redefine themselves, expanding their product lines and finding new customers. Much will depend on their adaptability.

"The world will change, the world *is* changing, and the forward-looking companies are responding," says Kenneth Wexler, one of three principals in a new management consulting firm devoted to helping defense contractors tap into civilian markets.

Wexler, a consultant to the state Department of Economic Development, joined with businessman Louis Tedeschi and marketing professor Peter LaPlaca this summer to launch the new firm, Old Saybrook-based Defense Diversification Strategies Inc. They have begun working with a number of state military contractors, including Raymond Engineering in Middletown.

LaPlaca, who has studied both military- and civilian-oriented companies from the marketing department at the University of Connecticut, sees a wide gulf between their corporate cultures.

"The military market is relatively averse to taking risks," LaPlaca observes. "In the commercial market, if you're averse to risk, you're the last into the market and the first to lose out."

Another distinction, LaPlaca says, is that defense contractors typically focus on products, while their civilian counterparts emphasize performance — that is, what they can do for customers.

Partly because of the elaborate cost accounting system required by the government agencies supervising weapons contracts, LaPlaca suggests, defense firms too often are saddled with unwieldy organizations slow to respond to opportunities in the market.

LaPlaca, Wexler and Tedeschi will try to enhance the marketing skills of their clients, to make them think like entrepreneurs. The process starts with developing a diversification plan, analyzing the abilities of a company and identifying business prospects.

As a senior manager for business development at Analysis & Technology Inc., the North Stonington engineering and training company that has been successfully weaning itself from dependence on the Navy, Tedeschi has experienced the promise and the pitfalls of diversification.

"You really need to establish a process," Tedeschi says. "People will get off-the-wall [business] ideas, but you need a structure, you need some investment criteria, to be able to evaluate those ideas. It's not magic. You can do it if you do the market research and you ask the right questions."

One of the most urgent questions being asked by business owners contemplating a transition away from defense is: Where are the commercial market opportunities in Connecticut?

The most obvious one, especially for companies that make components for Air Force jets, is the passenger airliner industry. Other growing industries in the state range from biomedical (U.S. Surgical, Corometrics) to specialty chemicals (Pfizer, Uniroyal) to underwater acoustics (Analysis & Technology, Sonalysts).

State economic development officials have been trying to promote these as core industries of the post-Cold War era by, among other things, helping to underwrite research and development of new ventures that promise to create jobs in Connecticut.

When it comes to diversification, "We're trying some things in Connecticut that are way ahead of the pack," says Tedeschi.

Robert Weisman is a Courant business writer.

Needs for Defense Diversification

Statement of
Peter J. LaPlaca, Ph.D
School of Business
University of Connecticut
and
Vice President
Defense Diversification Strategies, Inc.

With the significant and continued reduction in the defense production needs of the United States, major efforts must be directed to preserving the ability for rapid ramp up to former defense production levels in the event that world political conditions change results in new threats to the security of the nation. At the same time continued procurements at former levels would be wasteful resulting in an even greater Federal budget deficit with the negative impact on the overall economy.

To preserve the productive capacity and manufacturing skills which have served the country so well for so long, firms engaged in defense production must be able to utilize their technological and manufacturing capabilities in the production of products which have useful application in commercial markets. Many of the technologies which have been used in the production of military hardware can also be applied to products useful in a wide range of commercial applications. Military communications technology can be used for other markets needing sophisticated and reliable communications systems. Computer technologies specifically designed for military applications can be adapted to commercial needs. High precision manufacturing technologies can be used in a host of production settings requiring exacting specifications to compete in the world economy.

We cannot expect companies that have been involved with military markets to simply put up a new shingle and proclaim that they are available for peaceful production. While the defense procurement system has exacting standards for technical specifications and testing, for detailed procurement procedures, and specific accounting methods, the commercial world has an even greater standard: what the customers do not want, they will not buy!

While there are many differences between doing business with the Department of Defense and with commercial markets, the one which presents the greatest challenge to defense contractors involves the marketing of their goods and services to commercial customers. Let me mention some of the differences between these two areas.

Military Markets

Well Defined Customers
Complex, but well defined purchase procedures
Public process: oversight by congress, OMB, public groups

Public dissemination describing buying needs and procedures
Few resources devoted to marketing
Direct contact between supplier and user
Specific rules for cost information

COMMERCIAL MARKETS

Ill defined customers
Less complex and less will defined purchase procedures
Little public oversight
Little public dissemination of buying needs or procedures
Significant resources devoted to marketing efforts
Use of middlemen between suppliers and buyers
Imprecise determination of costs

What is needed to help defense contractors better adapt to the challenges of commercial marketing opportunities? First of all managers must become indoctrinated with the differences between military and commercial markets. In the commercial environment this task is the responsibility of the marketing function. Despite the widespread association between the advertising and sales functions with marketing, marketing is much more than these two aspects. The primary purpose of marketing is to provide customer-based input for the firm's decision-making. It is the responsibility of marketer to search out potential customers, identify their needs, discover the means by which these customers want to be served and measure the amount of satisfaction which they derive from the relationship with the supplier. Marketers are also charged with developing relationships with distributors, something that may seem foreign to managers whose experience has been involved in military markets. Marketers must also develop mechanisms to measure customer value from the use of the products and services offered by defense contractors.

Specific federal funds must be directed at helping managers in defense contractors become accustomed to commercial requirements. While many of the technical manufacturing skills can have direct transfer to commercial production requirements, the management of these companies must be trained in commercial business practices. Specifically management development programs should be made available in the following areas:

Marketing Strategy and Management
Building Distribution Networks
Marketing Research Techniques
Measuring Customer Value and Satisfaction
New Product Development Processes

There are ample providers of this type of training available in Connecticut, but most of their efforts have been directed to existing commercial companies. Additional funds for this kind of training and management development will attract significant efforts to better meet the critical needs for commercialization of the management decision processes of defense contractors.

Connecticut's Defense Diversification Program
A Working Prototype for Other States

Statement of
Kenneth A. Wexler
President
New Business Search & Development Int'l Corp.
and
Vice President
Defense Diversification Strategies, Inc.

The Connecticut State economic development program for defense-dependent companies is an excellent and well-planned assault on a difficult and relatively new problem.

The downturn in defense, and the state's response, started in 1991, and state policy and programs are rapidly changing and evolving, as we learn more about what works. I therefore refer to the Connecticut program, in product development terminology, as a "working prototype", meaning a system under development, rather than in its completed form.

I would expect Connecticut to continue to rapidly respond and change its focus as the needs of the state and its defense-dependent companies change (due to such changes as the development of federal assistance programs, and the evolution of the Dept. of Defense's Defense Advanced Research Projects Agency (DARPA)'s dual-use technology policy debate).

The structures developed in Connecticut, are an excellent model for the Federal Government and other states seeking guidance on establishing assistance programs for defense-dependent companies.

The Connecticut program includes the following important aspects:

1. **Information gathering**. A detailed survey was conducted by the state to identify the target market of defense-dependent companies, clarify their needs, and generate an appropriate mailing list. (The survey helped clarify the number and type of defense contractors and sub-contractors, and their needs for assistance).

2. **Policy Development Network**. Two key policy development committees are operating to help clarify legislative agendas and develop specific services. A high-level blue ribbon commission helps establish statewide and legislative policy, and a working committee of major prime contractors continues with policy development and program evolution.

3. **Financial Assistance Programs**. Financial assistance has been made available to defense-dependent companies for:

- Diversification Studies
- Retraining of Management and Workers for Commercial Business Development
- New Product Development and New Product Marketing
- New Plant and Equipment

4. **Non-DOD Federal Procurement.** An office has been established in Washington to assist defense-dependent Connecticut firms to market to other government agencies.

5. **Information on Diversification.** A series of public workshops was conducted throughout the state for defense-dependent companies, helping them understand diversification, the methodology of setting up an in-house diversification program, and available state and federal assistance programs.

   Introductory consulting visits by a diversification expert were conducted to help firms get over their nervousness about starting the process of diversification, and helped them learn about available assistance programs.

   A newsletter has also been established as an information medium for Connecticut defense firms, and a listing of appropriate consultants to assist firms.

The State of Connecticut, under the leadership of Governor Lowell Weicker and Commissioner of Economic Development Joseph McGee, have put in place an economic development program for defense-dependent companies that is one of the first and best of its kind anywhere in the United States (or in Europe).

It is my recommendation to the Committee that an analysis of the good work conducted in Connecticut may serve as an appropriate model for development of similar programs in other states, or at the Federal level.

DEFENSE DIVERSIFICATION STRATEGIES, INC

Helping Defense Contractors Adapt to Commercial Market Opportunities

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DEFENSE DIVERSIFICATION STRATEGIES, INC.

OBJECTIVES

As America's defense industry changes, defense contractors must seek new growth opportunities in non-defense markets to supplement their DOD supported endeavors. DDSI works with defense-dependent organizations to identify opportunities for applying defense related technologies and expertise in commercial markets.

DDSI will assist its clients with the organizational changes necessary for success in these new markets. We will perform assessments of internal technological and marketing capabilities as well as assessments of external commercial markets to identify those commercial applications with above average profit potential for each client's strengths.

DDSI will assist its clients in development and implementation of market entry strategies for commercial opportunities consistent with the organization's longer range strategic objectives.

DDSI helps defense contractors adapt to commercial market opportunities by providing the following assistance:

* *Strategic Planning Processes*
* *Assessing Corporate Capabilities*
* *Identification of Target Markets*
* *Identification of Dual-Use Technologies*
* *Internal Product/Service Development Processes*
* *Developing Products and Services for Specified Target Markets*
* *Marketing Research Services*
* *Evaluating Business Opportunities*
* *Identification of Public and Private Funding Sources*
* *Management Training and Development for Success in Commercial Markets*

DEFENSE DIVERSIFICATION STRATEGIES, INC.
STATEMENT OF SERVICES

Assessment of Technical Capabilities Many defense firms have a variety of technical capabilities which go well beyond their current applications to Defense Department needs; however, lack of familiarity with commercial markets often hinders significant and profitable application in the commercial sector. DDSI will help identify those capabilities and develop systems whereby they can be successfully applied to commercial opportunities.

Assessment of Marketing Capabilities DDSI will undertake a complete assessment of the company's knowledge of the market and marketing capabilities and prepare a marketing development schedule to fully prepare the firm to successfully compete in the commercial environment.

Management Development of Marketing Skills To be successful in today's highly competitive commercial environments, companies must become more market-driven. DDSI will provide a series of one- and two-day seminars to train managers (marketing, engineering, research, manufacturing, financial, and other disciplines) in the market-driven skills vital to profitable growth and success into the next century.

Market Assessment DDSI will assess market opportunities for specific applications of client skills and capacities to assure proper market selection for attainment of sales and profit goals. DDSI uses extensive computerized data bases supplemented with personal interviews with industry experts and potential customers to determine market potential and desired characteristics for successful products and services.

Identification of Dual-Use Technologies DDSI will assist clients in the identification of commercial applicationsfor military technology. Successful sales of these technologies into commercial markets can provide opportunities for significant cost reductions as cumulative production quantities enables the firm to take advantage of experience curve factors.

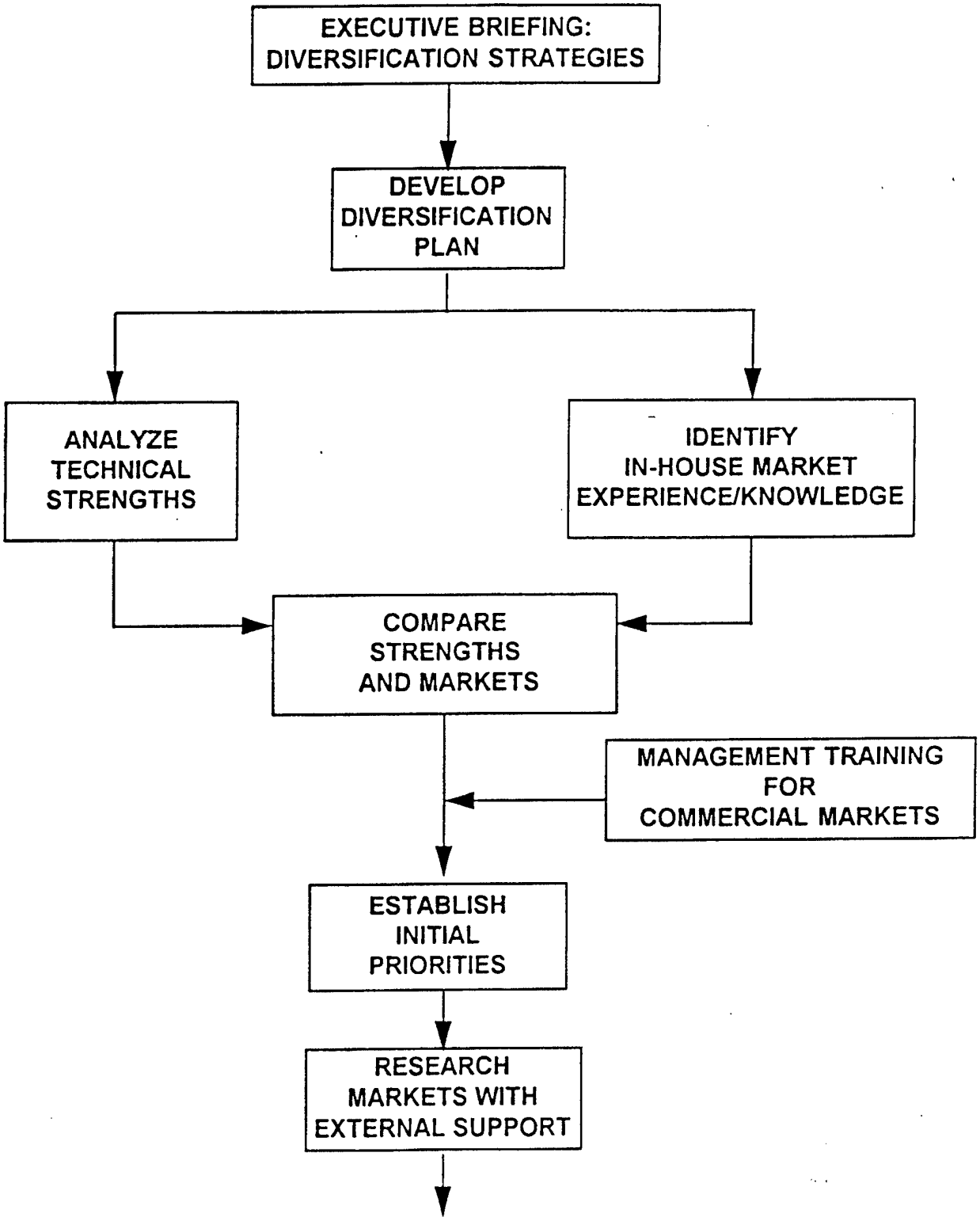
New Product Development Processes DDSI has analyzed new product development procedures in dozens of successful commercial companies and can design customized programs to match the skills and capabilities of client firms to generate a stream of new and innovative products and services to enhance growth opportunities. Working with client managers, DDSI will adapt successful internal development methods to the specific realities of the commercial markets targeted by the client for maximum success probabilities for new products.

Product and Service Design Assistance Using the latest customer research techniques, DDSI will assist clientswith the design of products and services which incorporate the voice of the customer as the initial stage of the house of quality so necessary for success in an increasingly competitive global marketplace.

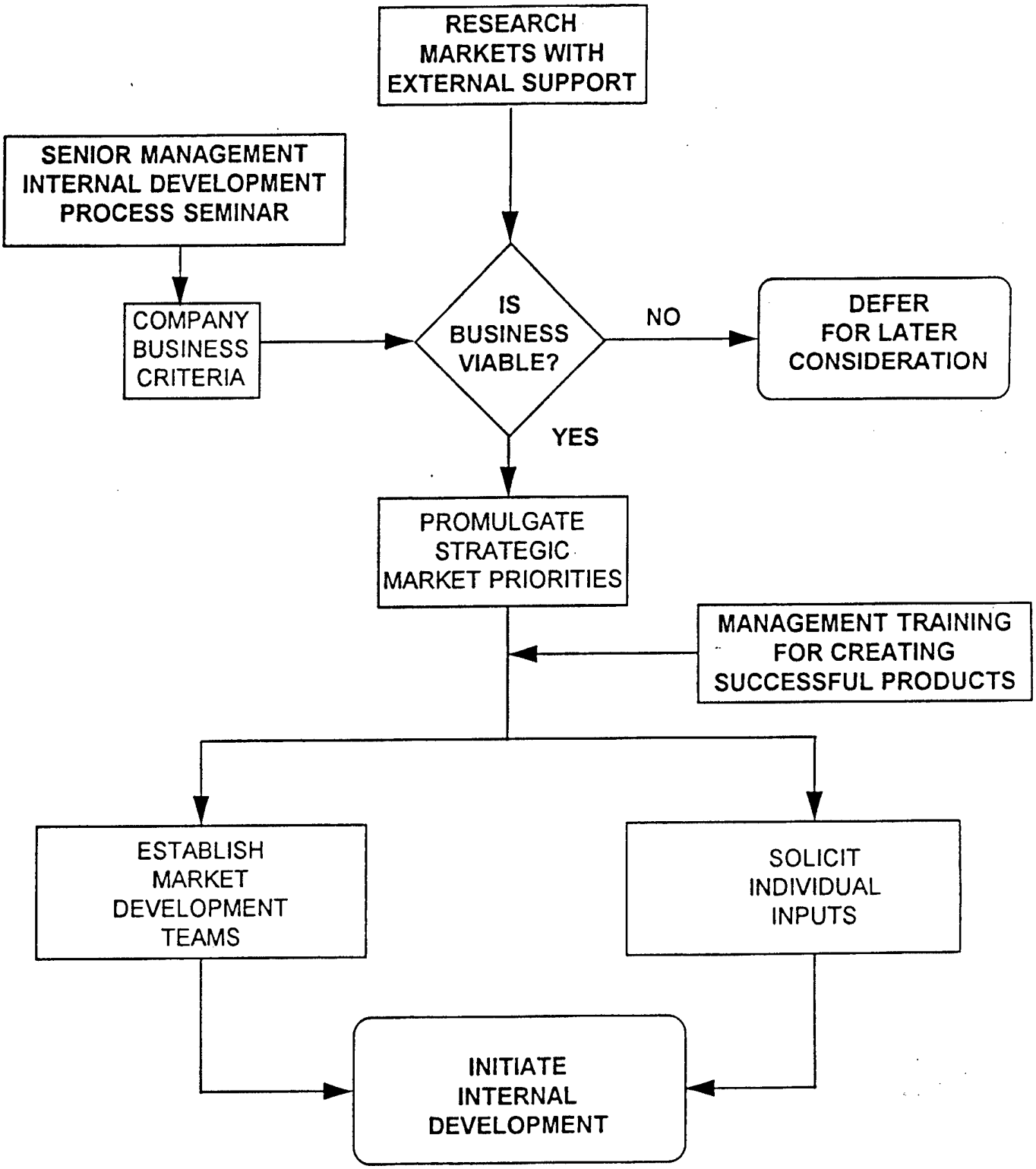
Product Development Training DDSI will conduct a series of one- and two-day seminars for project leaders, research and development and engineering personnel, marketing and sales people, and others involved with the development and launch of new products. These sessions explore the nuances of successful product and service development systems.

Strategic Marketing Planning DDSI works with client management to develop strategic marketing plans to increase market success for the entire new product program. This includes balancing of client product and service portfolios as well as development of market entry programs for newly developed products and services.

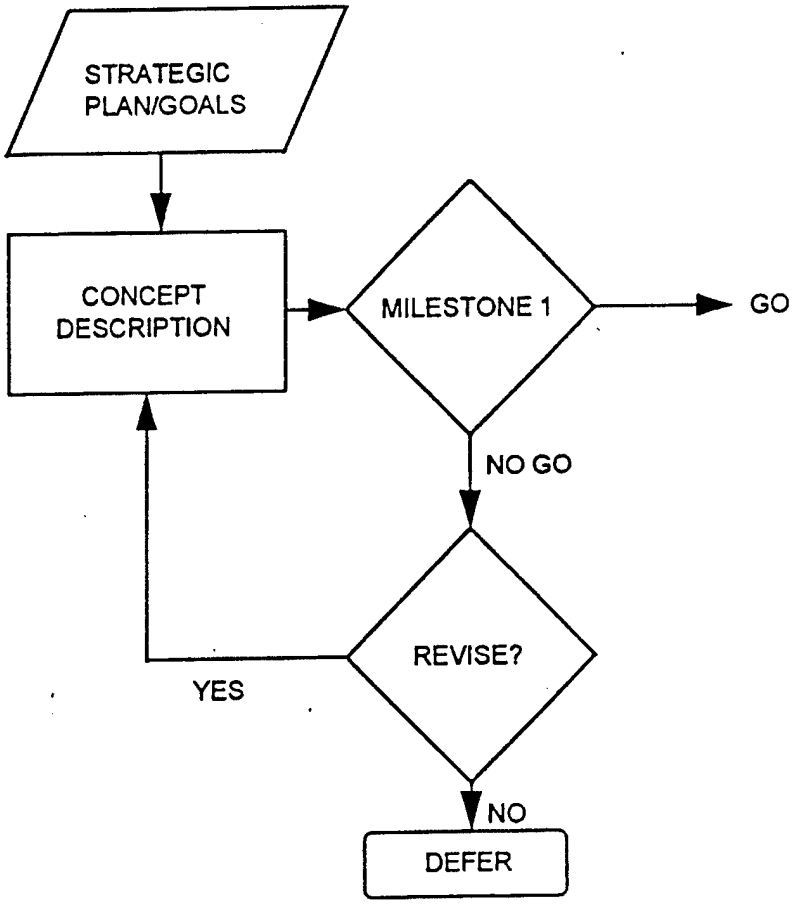
DIVERSIFICATION PLANNING PROCESS



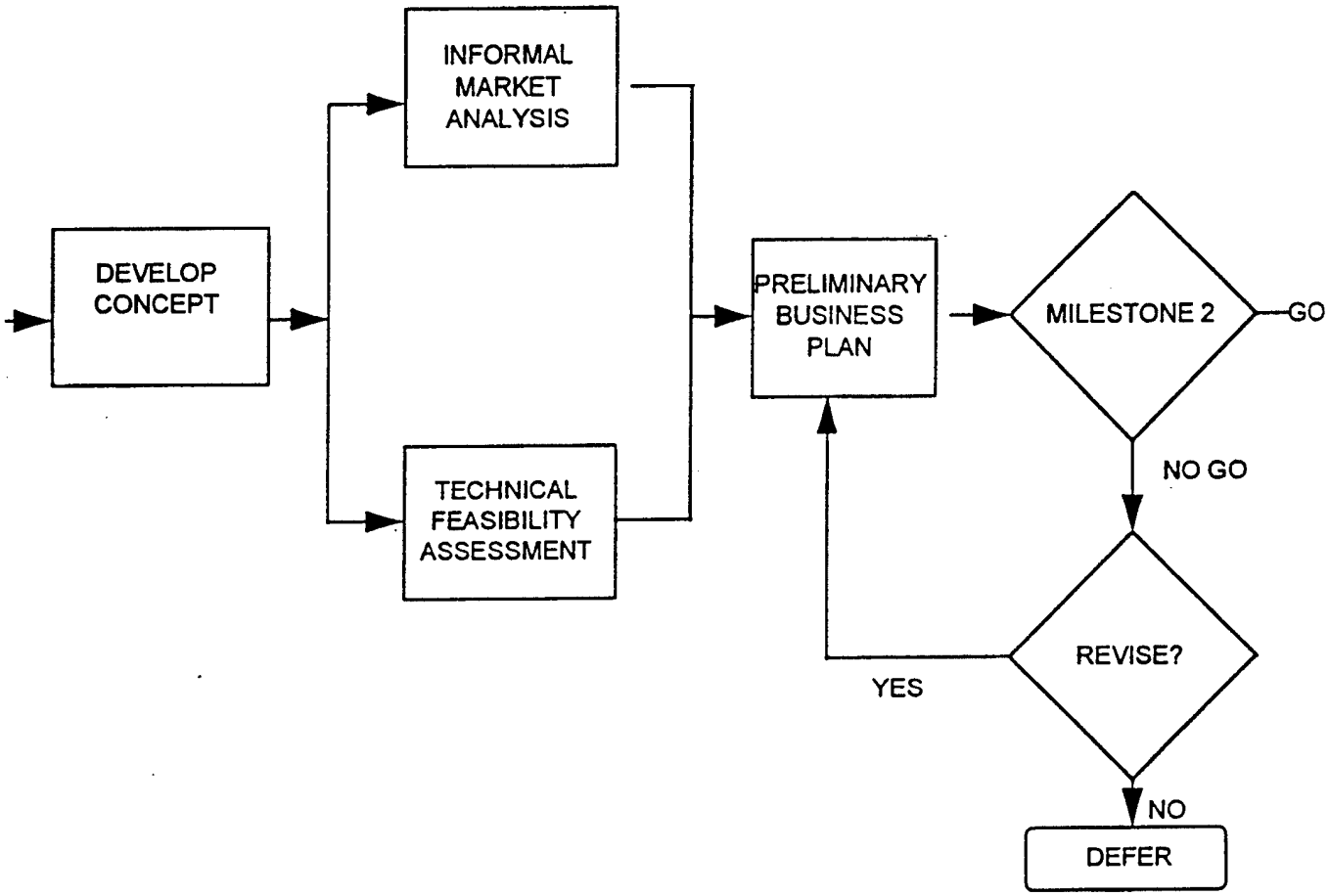
DIVERSIFICATION PLANNING PROCESS continued



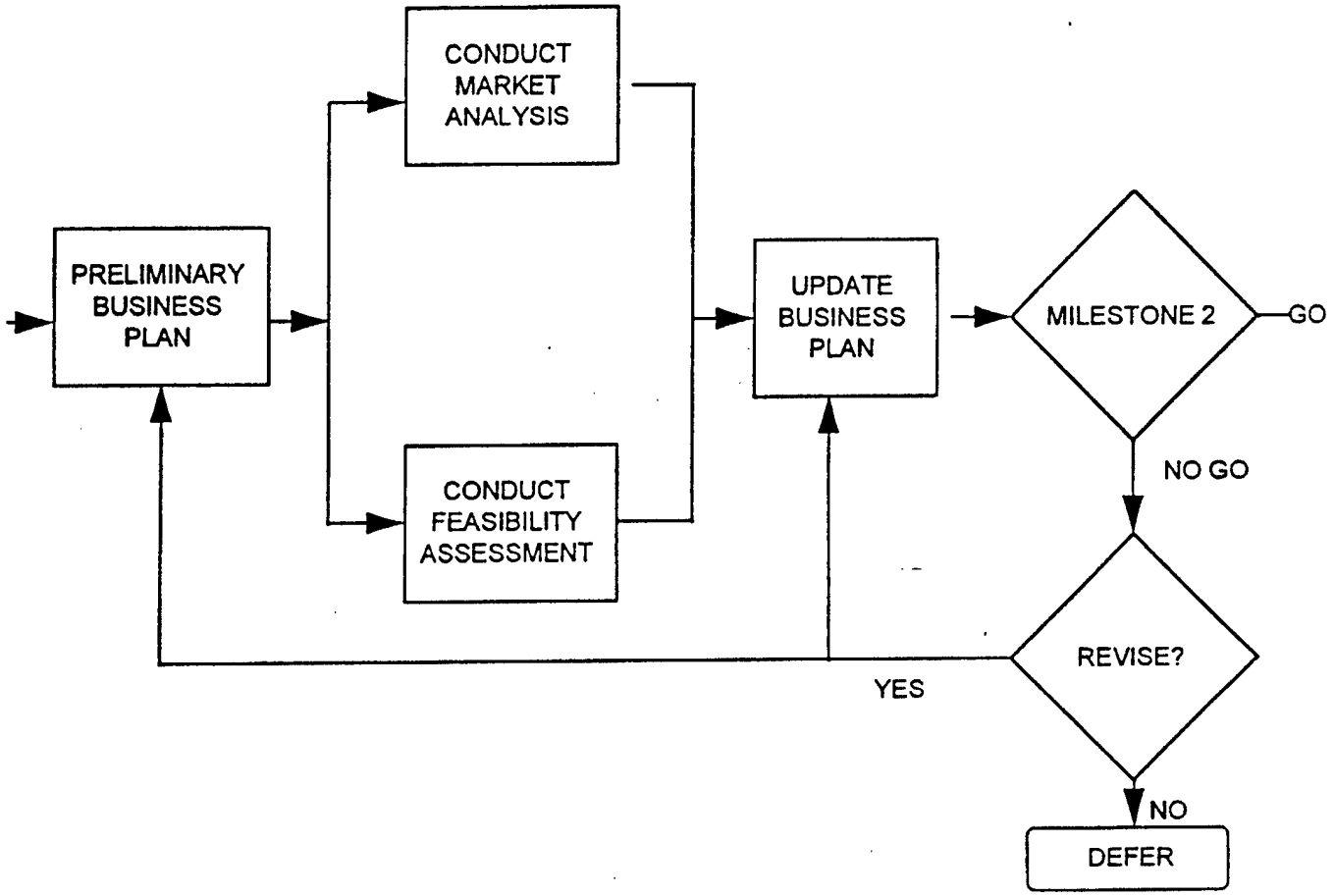
INTERNAL DEVELOPMENT PROCESS
PHASE 1: Concept Generation



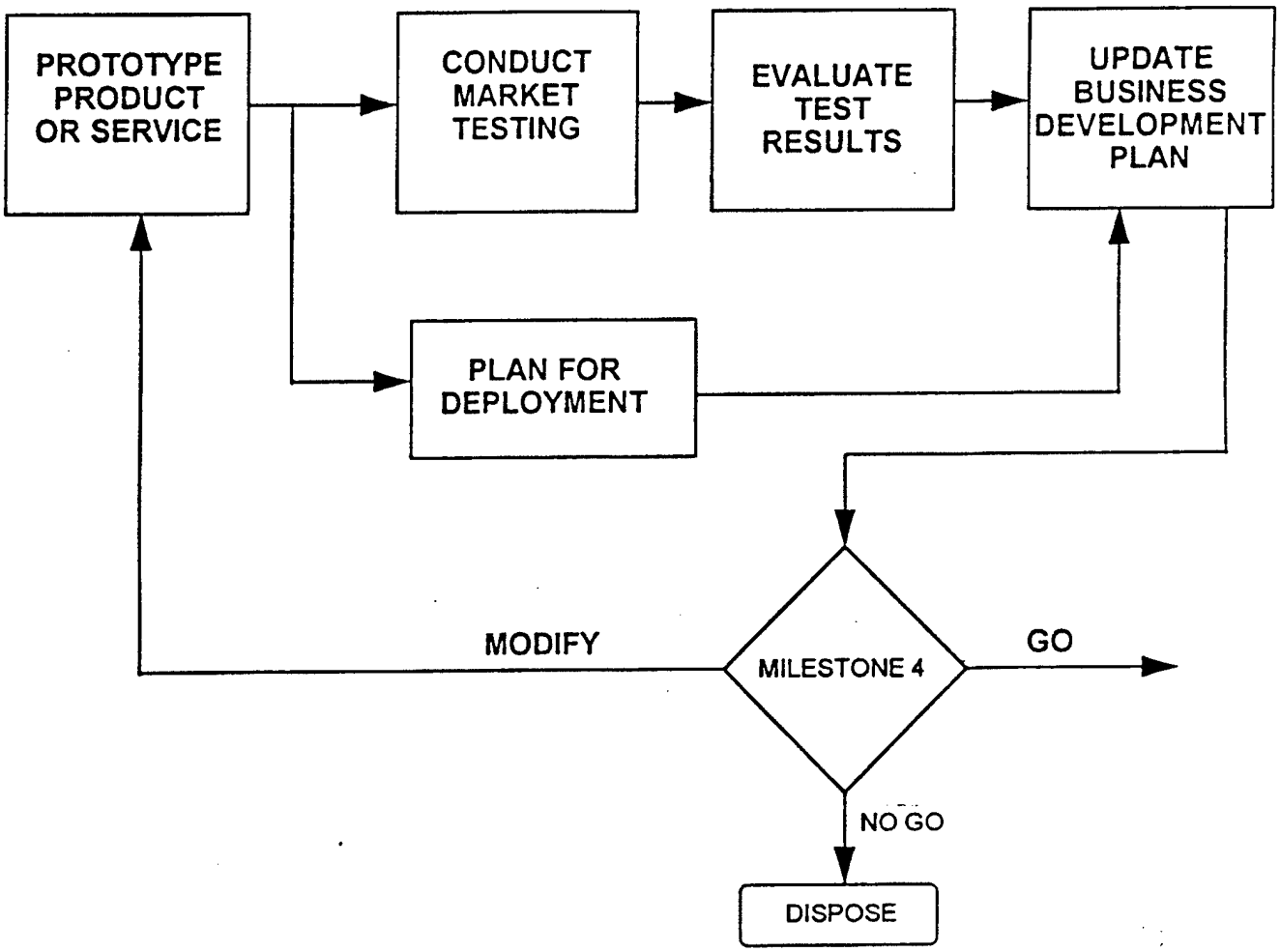
INTERNAL DEVELOPMENT PROCESS
PHASE 2: Concept Assessment



INTERNAL DEVELOPMENT PROCESS
PHASE 3: Business Development Plan Preparation



INTERNAL DEVELOPMENT PROCESS
PHASE 4: Deployment Planning and Market Testing



DEFENSE
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August 28, 1992

Mr. Gregory Hartung
Defense Conversion Commission
Suite 310
1825 K St. NW
Washington, D.C. 20006

Dear Mr. Hartung:

Thank you for signing us up to appear as witnesses in the upcoming hearing on Thursday, September 17th in Groton, Connecticut. We can appear together if appropriate.

I have enclosed some background on each of us:

Ken Wexler
Louis Tedeschi
Peter LaPlaca

We are working directly with a number of the most hard-hit defense contractors in the state, and I think can offer some insights to the committee on "the problems caused by the spending cuts and potential solutions." I have enclosed an article about us that discusses our experiences.

The earlier that we could be put on the agenda, the better, if possible.

Sincerely,

Ken Wexler
Vice President

Helping Defense Contractors Adapt to Commercial Market Opportunities

BACKGROUNDS OF DDSI PRINCIPALS

PETER J. LaPLACA

Peter J. LaPlaca is Associate Professor of Marketing at the University of Connecticut where he teaches graduate and undergraduate courses in marketing research, industrial marketing and strategic marketing planning. He received his Bachelor's, Master's, and Doctoral degrees in management from Rensselaer Polytechnic Institute (Troy, New York). Prior to joining the faculty at UCONN in 1974, Dr. LaPlaca taught at the University of Hartford, the State University of New York at Albany, and Rensselaer Polytechnic Institute. He has also been a visiting instructor at Concordia University at Montreal. Dr. LaPlaca has lectured at many international, national and regional conferences and has lectured at universities in Italy, Germany, and Sweden. In 1982 he was named the Outstanding Marketer of the Year by the Connecticut Chapter of the American Marketing Association.

Extensively involved in professional marketing activities, Dr. LaPlaca was the founding President of A.B.M., the Association of Business Marketers. He was also president of the Connecticut Chapter of theAmerican Marketing Association, Vice President and member of the National Board of Directors of the American Marketing Association, and a member of its Industrial Marketing Council. He was also a vice president and director of the Academy of Marketing Sciences.

Dr. LaPlaca is the Editor-in-Chief of the ***JOURNAL OF BUSINESS AND INDUSTRIAL MARKETING*** and serves on the editorial review boards of ***THE JOURNAL OF MARKETING EDUCATION, HIGH TECHNOLOGY MARKETING REVIEW, THE JOURNAL OF HEALTH CARE MARKETING,*** and ***THE JOURNAL OF PRICING MANAGEMENT.*** He was the Associate Editor of ***INDUSTRIAL MARKETING MANAGEMENT*** from 1977 to 1988. He has written numerous articles in such journals as ***JOURNAL OF MARKETING, HIGH TECHNOLOGY MARKETING REVIEW, INDUSTRIALMARKETING MANAGEMENT, PROFILES IN HOSPITAL MARKETING,*** and ***HOSPITALS,*** and hasedited proceedings of several national marketing conferences.

His research interests revolve about the linkages between strategic marketing planning and field implementation in industrial companies as well as the development of competitive intelligence systems. He is an active consultant to many firms and organizations including: The Connecticut Attorney General's Office, General Electric, General Telephone and Electronics, Hancor, Inc., Analysis & Technology, Combustion Engineering, Yale-New Haven Hospital, The John Dempsey Hospital, Connecticut National Bank, Smith and Wesson, National Telephone Company, South New England Telephone Company, CIGNA, Bristol Brass, Aetna Life & Casualty, the Fafnir Bearing Division of Textron, and many others.

During the past five years, Dr. LaPlaca has offered in excess of 100 executive education programs for thousands of executives at universities throughout the United States including Syracuse University, Washington State University, Southern Methodist University, The College of William and Mary, Michigan State University, Rochester Institute of Technology, Georgia Institute of Technology, RutgersUniversity, University of Tennessee, Temple University, The University of Colorado, The University of Pittsburgh, The University of Minnesota, and others. He has also offered in-house programs for many companies, both large and small.

Dr. LaPlaca has published ***INDUSTRIAL MARKETING MANAGEMENT: CASES AND READINGS*** (Random House, 1984). He has recently released ***MARKSTAT,*** an educational software package of basic statistical analytical techniques for use in marketing research courses.

LOUIS C. TEDESCHI

Louis C. Tedeschi has over 30 years of experience in the military-industrial market. He is presently the non-DOD Diversification Project Manager and Specialty Engineering Group Manager at Analysis & Technology, Inc. in New London, CT. He has been responsible for the introduction of innovative management concepts and military systems throughout his career as a military contractor and as a Naval Engineering Officer.

As Sector Marketing Manager, Mr. Tedeschi coordinated a pilot program for the internal development of diversification projects into commercial industry. This program has evolved into a corporate-wide program which is being supported through a State of Connecticut Diversification Grant. During the last 5 years, he has led several diversification projects including the development of a Maintenance Management System for the New Jersey Turnpike Authority and a Passive Acoustic Fetal Monitoring System. While at A&T, Mr. Tedeschi specialized in systems automation including the development of expert systems for diagnosing maintenance problems, automated logistic planning systems, complex project control systems, and readiness evaluation systems. As a Principal Analyst, Mr. Tedeschi supported the research, development, and integration of Sonar Systems and electronic systems aboard conventional and advanced ships. He was instrumental in developing and evaluating new concepts through performance and cost-effectiveness modeling techniques, development of test plans, conduct and evaluation of tests for the US Navy and Coast Guard.

Mr. Tedeschi retired as an Engineering Officer in the Navy after having served in responsible management and technical positions. He was responsible for the test and evaluation, and supported the fleet introduction of hydrofoils in the US Navy. Mr. Tedeschi was also responsible for the land based testing and operational evaluation of a ship gas turbine propulsion plant. He developed innovative approaches to planning and engineering for repairs and overhauls of all guided missile ships in the Navy. Mr. Tedeschi served as a Naval Advisor in Vietnam and coordinated the design, construction, and testing of several ferro-cement boats. As Quality Assurance Officer, he monitored the construction and trials of several US Navy and German Navy guided missile ships. Mr. Tedeschi also served as a propulsion system officer aboard a Navy destroyer. While in the Navy, he qualified as a Chief Nuclear Reactor Operator, Surface Warfare Officer, and Weapons System Acquisition Manger.

Mr. Tedeschi received his BS in Naval Architecture and Marine Engineering from the Massachusetts Institute of Technology and an MS in Mechanical Engineering from the US Naval Postgraduate School. He is a Certified Professional Logistician and has been an Adjunct Professor for Logistics at the University of New Haven for the last 10 years. Mr. Tedeschi has also taught Value Engineering Principles and Contract Application to over 1000 military and contractor personnel throughout the US. He is active in the Society of Logistics Engineers, has been Chairman of the local chapter, and presented a paper on Automated Logistics Planning at its International Symposium. He has published several reports in support of the many projects conducted while in the Navy and at Analysis and Technology.

KEN WEXLER

Mr. Wexler is President of New Business Search & Development International Corp., a specialized diversification consulting firm, with offices in Connecticut, and a sister company in Breda, TheNetherlands. He received his Bachelor's degree in Chemistry from State University of NY (Stony Brook), Masters of Arts in Chemistry/Natural Products from Columbia University and Masters of Business Administration, Marketing from Rensselaer Polytechnic Institute. Prior to his present position, he was Vice President of Professional Operations at Innotech Corporation. Mr. Wexler has lectured at many international, national and regional conferences including the Senior Executive Workshop at Henley, The Management College in the UK.

He recently served as the State of Connecticut's first statewide consultant for defense diversification, and traveled throughout the state assisting numerous companies in their diversification strategies.

Mr. Wexler has served as President of the Connecticut Chapter of the Product Development & Management Association, and has been an active member of the International Society of Product Innovation Management. He has given numerous lectures and workshops on diversification, including the European Society for the Transfer of Technology & Innovation, and the Henley Management College.

Mr. Wexler is the Business Editor of the ***WIRE INDUSTRY NEWS*** and ***FASTENER INDUSTRY NEWS***. He has also published major studies of industrial markets on ELECTROMAGNETIC COMPATIBILITY , CHEMICAL INDUSTRY PROCESS CONTROL INSTRUMENTATION, SEMICONDUCTOR SENSORS , COMMERCIAL INDUSTRY MICROWAVE EQUIPMENT and THE US. MARKET FOR ELECTRICAL WIRE AND CABLE.

His research interests include strategic planning methodologies, secondary and primary research techniques, as well as the science and art of new business development and new product development. He has been an active consultant to many firms in both the US and Western Europe such as The DexterCorp., Shell Chemical Company, Ilsco, Reynolds & Reynolds, UNC Naval Products, Union Carbide Corp., Velcro Inc., Bekaert Engineering, CSM/CCA biochem BV, Fiskars Oy, Gist-Brocades NV, Pella BV, Philips, Private Patients Plan, and Volvo.

OUR MISSION

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- Marketing Research Services
- Evaluating Business Opportunities
- Identification of Public and Private Funding Sources
- Management Training and Development for Success in Commercial Markets

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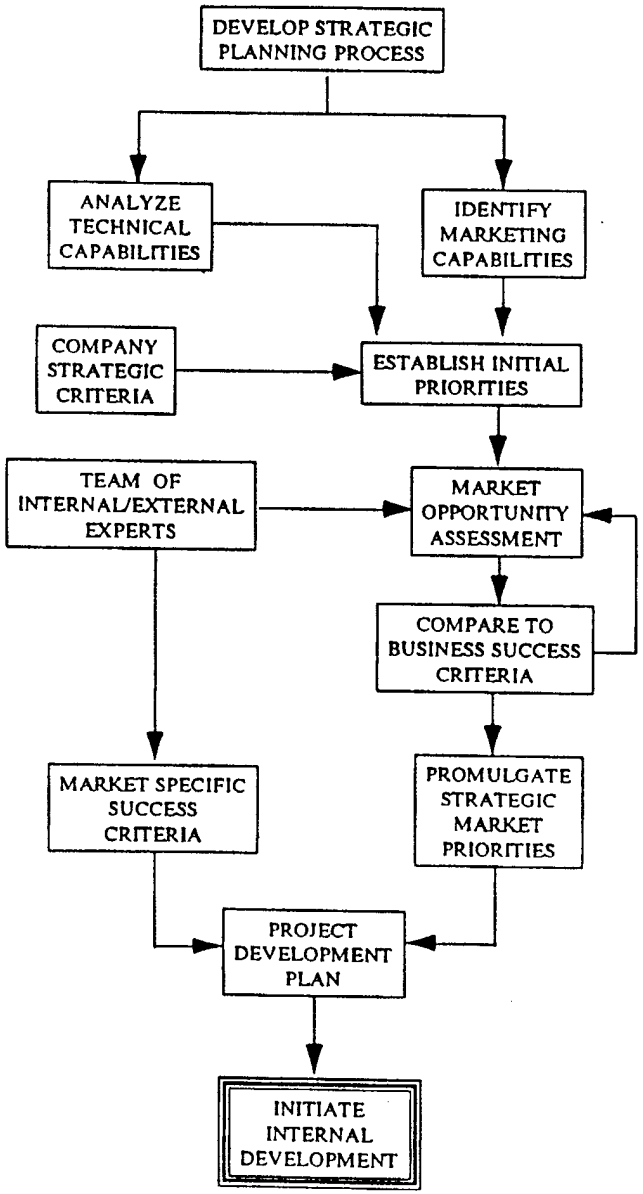
DDSI PRINCIPALS

Louis C. Tedeschi has over thirty years of experience in the military market. He is a senior manager and a business developer at Analysis & Technology, Inc. and currently Project Manager for Diversification. Mr. Tedeschi has led several diversification projects at A&T during the past five years. He has extensive experience in introducing new technology and supporting complex military systems as a naval officer and a defense contractor. He is a Certified Professional Logistician and an Adjunct Professor for Logistics at the University of New Haven for the past ten years. Mr. Tedeschi holds a BS in Naval Architecture and Marine Engineering from MIT and an MS in Mechanical Engineering from the USN Postgraduate School.

Peter J. LaPlaca has over twenty years consulting experience for many large and medium sized commercial organizations. Over 3000 managers have attended Dr. LaPlaca's seminars in the past ten years. He received his bachelor's, master's, and doctoral degrees from Rensselaer Polytechnic Institute. He is a professor in the Marketing Department at the University of Connecticut. In 1982 he was named *Marketer of the Year* by the Connecticut Chapter of the American Marketing Association.

Kenneth A. Wexler has provided diversification, marketing, and technology transfer assistance to major companies in North America and Europe since 1983. In 1991 he was appointed the State of Connecticut's statewide consultant for defense diversification. Mr. Wexler received his bachelor's (SUNY/ Stony Brook) and master's (Columbia) degrees in chemistry. He also holds an MBA from Rensselaer Polytechnic Instutute. He is president of New Business Search & Development Int'l Corp.

THE DDSI PROCESS



MANAGEMENT DEVELOPMENT PROGRAMS FOR COMMERCIAL MARKET ENVIRONMENTS

DDSI offers the following management development programs for executive, senior, and project management people.

DIVERSIFICATION STRATEGIES: EXECUTIVE BRIEFING A one-day program for executive managers. This program takes a top level executive perspective to help the company set new directions, instill a market-driven commercial organizational culture, and become familiar with the strategies and structures of successful commercial organizations.

DIVERSIFICATION STRATEGIES FOR SENIOR AND PROJECT LEVEL MANAGERS A two-day program for senior and project managers to enable them to make the transition from DOD based products and services to the commercial markets. The program covers basic practices and strategies of successful commercial companies and presents several examples of former defense dependent companies that have grown through increased penetration of commercial markets.

COMMERCIAL BUSINESS INTERNAL DEVELOPMENT PROCESSES A one-day program for senior level managers describing procedures for internal development of new products and services taken from successful commercial companies such as 3M, Hewlett Packard, Detroit Diesel, Navistar International, Herman Miller, Connor Peripherials, and others. Topics covered include generating and screening new project concepts, developing a new business strategy, and creating the necessary support systems for project success.

CREATING SUCCESSFUL PRODUCTS AND SERVICES. A two-day program which builds upon the seminar described above. It is designed for senior managers and new product team leaders. It will provide guidance and enhance the skills necessary to fully analyze market potential prior to entering commercial markets Participants will be provided with the tools for preparing complete marketing plans for new [illegible]

TESTIMONY PRESENTED TO THE DEFENSE CONVERSION COMMISSION BY JOANNE SHEEHAN, COMMUNITY COALITION FOR ECONOMIC CONVERSION, September 17, 1992

The Community Coalition for Economic Conversion consists of individuals and representatives of organizations in Southeastern Connecticut who have begun to explore what can be done in the community to work for economic conversion. Our mission statement reads: " We are people who celebrate the end of the Cold War and look forward to the end of weapons production in our region and throughout the world. We know that the reduction of military spending could create massive increases in unemployment, poverty, and stress on individuals, families and our communities. We believe that if we want peace we must work for justice. Therefore we come together to address economic justice in the context of peace and to create hope for the future." We are people who have worked in this community and served it in many ways - through our churches, nonprofit groups that work to create affordable housing and address other human needs, as active citizens in our communities.

Defense cuts are inevitable. The Soviet Union, our "enemy" during the Cold War, is no longer. "The writing is on the wall". But the writing on the wall is like grafitti that keeps getting changed, written over, over and over again.

The writing on the wall that has been in this community for many, many years can best be seen on the submarine sign on the highway that reads "Submarine Capitol of the World." This is a heavily defense dependent community - submarines are both built and based here. Generations of people have worked at Electric Boat, and they believed that generations to come would work there. As is with human nature, when the writing on the wall began to change, people did not want to believe it. Denial is the first emotion we feel when faced with major changes in our lives.

On November 9, 1989, the Berlin Wall came down. The writing was on that wall, changes would come. We couldn't have seen it all then, but my concern, the concern of our Community Coalition for Economic Conversion, is that this community, and most defense dependent communities, are the ones trying to change the writing on the wall, saying that we must continue to get military contracts with the rallying cry "jobs, jobs, jobs".

On Oct. 1, 1990, in the most extensive lay-offs since 1977, 582 employees of Electric Boat lost their jobs. Some of these people had been there 21 years. Congressional decisions on the Seawolf submarine program in the 1991 budget heading for conference committee in a few days would determine whether there would be a second round of cutbacks in a month, according to EB.

Thousands of people lost their jobs when UNC closed and the Naval Underwater Systems Center was cut.

In May of 1991 General Dynamics Stockholders were told that the company was "rightsizing", basically downsizing so that even if EB got the contracts it hoped for thousands of workers would be layed off.

In February, just 3 weeks after Bush's announcement that he wanted to eliminate the Seawolf program, 300 workers were layed off. In April, 1,888 more men and women lost their jobs at Electic Boat. I am sure that I don't need to be giving you these figures but I state this information, this "writing on the wall", to emphasize that people are losing their jobs and will continue to loose their jobs until serious efforts are made to convert our economy.

When Bush announced the cuts in the Seawolf program -even though the writing had been on the wall, General Dynamics, the business community, the politicians, the workers and the community fought the cuts as if there are no alteratives. The writing on the wall got changed again, with the message that if we work hard we can change the writing on the wall and save jobs. The newspaper headlines read "Defense Cuts Savage N.E. jobs" and "Report claims region faces major decline." Soon we saw "Fear of losing job debilitates U.S. workers", "Downturn, layoffs making people edgy", and "EB workers, generous in good times, may find charities unable to help". With job losses, more people need help with rent subsidies, food, help meeting basic human needs. They can't pay there property taxes, they can't even pay their mortgages. Eventually the government will have to spend more as the number of people on welfare increases. People are angry that the government is cutting, but providing no alternatives. So people's fears and frustrations went into trying to "Save the Seawolf" which will only save a small amount of jobs for a short amount of time.

Some have argued that we should just let the free market economy deal with this. To some degree that is what has happened in the past few years here - and little has happened. There has been a relatively small amount of Federal money available for diversification studies and retraining. The region has begun to create plans, organized a Council of Governments, TECHCONN, SEATECH, and other efforts that I am sure you have been made aware of in your visit here.

We believe that Congress needs to be told "YES", this transition needs government support. Since this is a democracy, we believe that those of us in the communities, in the factories, in the small businesses, also should have a say in what happens in our communities.

Alternative Use Plans are needed for each facility with over 100 workers - composed by Alternative Use Committees made up of an equal number of management and labor. Facilities and skills are convertible. Where new skills are needed, Federal money for job training is needed. Our group

is not only concerned about the large number of defense workers but also the others in this country who cannot find work. They also need opportunities for training and jobs. Job opportunities can be created by creating incentives for defense-industries to convert to civilian work, increasing funds such as Community Development Block Grants that provide money for communities to improve their infrastructures, build or rehab affordable housing, and fund other projects that create jobs. We have major environmental problems in this country. First of all, Department of Defense money should be reappropriated for environmental cleanup of defense bases, money that would employ many for a long-time. We also need to emphasize that environmental clean-up and environmental protection is one of our greatest economic opportunities. Creating alternative sources of energy could employ many in present defense facilities. Electric Boat could develop OTEC - Ocean Thermal Energy Conversion, while workers at Pratt & Whitney could be making gas turbines that could be fueled by clean gases. There are many possibilities, Federal legislation can be passed to set up the incentives and the support systems needed to make this happen.

What about the money? Studies done by many organizations, such as Employment Research Associates show that $1 billion of U.S. tax dollars will employ many more in jobs cleaning up the environment, creating affordable houising, repairing the infrastructures of this country then will emply defense workers, since that is such a capitol-intensive industry.

The writing is on the wall, but we have been denying it for too long. Two years and two days ago, on September 15, 1990 an article appeared in "The Day", a local newspaper, with a headline declaring "Conversion now a major concern for EB, others: Defense cuts pronpt need for diversification". Two years and two days later we are not very far along. We have "saved" one Seawolf, and thousands of people have lost their jobs. Here in Southeastern Connecticut we have begun a process that should have been begun long ago - before people started losing their jobs. This country as a whole needs to get behind this problem, it cannot be left up to the struggling communities to come up with all the answers and do all the work. We can, and should, do our part, but we cannot do it without a clear conversion policy in this country. That is, we believe, our only hope for having enough jobs for people in this country, and for creating a healthy environment for all of us to live in.

Joanne Sheehan
Community Coalition for Economic Conversion
P.O. Box 1093
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The Justice & Peace Commission
Office for Justice & Peace

Diocese of Norwich

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TESTIMONY ON ECONOMIC CONVERSION

SEPTEMBER 17, 1992

Good afternoon!

I am Fran Boulay, Director of the Office for Justice and Peace of the Diocese of Norwich. On behalf of Bishop Daniel Patrick Reilly, of the Diocese of Norwich, I am here to offer the following statement.

As Bishop of the Diocese of Norwich, I send my regrets that I am unable to be present with you here today. However, I do feel one with you because I am attending an Interfaith International Peace Conference in Brussels for this entire week. I expect that we will be discussing similar, if not the same topics you are confronting now. I share your concern and commitment to address these formidable issues of our day.

As one of the Bishops on the drafting committee of the U.S. Bishops' Peace Pastoral, "The Challenge of Peace: God's Promise and Our Response," I will begin with a quote from that document.

> "The arms race is one of the greatest curses on the human race and the harm it inflicts upon the poor is more than can be endured.

Funded by the Annual Bishop's Appeal

We are aware that the precise relationship between disarmament and development is neither demonstrated nor easily reoriented. But the fact of a massive distortion of resources in the face of crying human need creates a moral question. In an interdependent world, the security of one nation is related to the security of all. When we consider how and what we pay for defense today, we need a broader view than the equation of arms with security. The threats to the security and stability of an interdependent world are not all contained in missiles and bombers.

If the arms race in all its dimensions is not reversed, resources will not be available for the human needs so evident in many parts of the globe and in our own country as well. But we also know that making resources available is a first step; policies of wise use would also have to follow. Part of the process of thinking about the economics of disarmament includes the possibilities of conversion of defense industries to other purposes. Many say the possibilities are great if the political will is present. We say the political will to reorient resources to human needs and redirect industrial, scientific and technological capacity to meet those needs is part of the challenge of the nuclear age. Those whose livelihood is dependent upon

> industries which can be reoriented should rightfully expect assistance in making the transition to new forms of employment." 1

This pastoral statement will be ten years old on May 3, 1993. This is not a new issue and these are not new and radical suggestions of how to deal with this national and international dilemma. Economists, sociologists, military personnel, scientists, theologians and lay men and women have been groping with this issue for virtually a quarter of a century. It is time for the voices to be heard and for action to be taken.

As a religious leader in eastern Connecticut, I have been and continue to be deeply concerned for those affected, past and present, in our state and beyond our borders with the downsizing of the defense industry. However, I have also been deeply concerned for those who have been affected even longer, generation after generation. The poor, the disenfranchised, the homeless, these are the people who were and continue to be the forgotten ones in our society. Those who, in the midst of the military buildup were left behind because of the exorbitant cost of our military budget. It rested on the backs of the forgotten. It will happen again unless we commit ourselves to work together for the betterment of our entire community, nation and world.

As I stated in my recent "Pastoral On The Dignity of Work," "the Church has always taught that we, as society and government, have a duty to create meaningful opportunities for employment of all people. In these difficult times, the concern should be not only to create new, meaningful employment, but also to accept the challenge to find appropriate ways to convert and diversify the economic base." 2

In our willingness to work together and listen to one another we will hopefully discover the ingenuity necessary to develop creative alternatives for the military industrialized complexes of our nation. We realize that the road ahead will be marked with changes and in all likelihood many challenges in lifestyles. Some may find themselves with a new job, others living with a lower wage scale and others not seeing much of a change at all. We need to pledge our support and encouragment to one another along the way. The one constant result will be that we are providing long range employment and contributing to a more just world order for everyone.

Let us join together in our commitment to break the cycle of violence in society and forge the path to a true and lasting peace among nations. May we have the courage to strive for policies that protect the rights and dignity of all peoples by promoting ecomonic justice for all. My prayers and blessings are with you as together we embark on this endeavor.

1) Challenge of Peace: God's Promise and Our Response, Par. 269-271, May 3,1983.

2) Bishop Daniel P. Reilly's Pastoral On The Dignity of Work, April 16, 1992.

Sincerely Yours in Christ,

+ Daniel P. Reilly

Most Rev. Daniel P. Reilly

Bishop of Norwich

Connecticut SANE/FREEZE Campaign For Global Security

Testimony submitted to the Defense Conversion Commission
Thursday, September 17, 1992
Groton, Connecticut

Patricia Wass
Executive Director
Connecticut SANE/FREEZE: Campaign for Global Security
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printed on recycled paper

In planning for my testimony, and thinking about what materials to provide for this committee, I came across the following quote:

> Connecticut has the highest per capita military spending in the nation. At least 100,000 people in the state depend directly upon the Pentagon for their jobs, and 25% of the state's industrial capacity is geared exclusively to serving the needsa of one interest -- the military. This extraordinary dependence has created a unique vulnerability for the Connecticut workforce....

I know this sounds very familiar. The interesting thing is that it appeared 13 years ago in a book called "Jobs, Security, and Arms in Connecticut" written by Marta Daniels and published by the American Friends Service Committee in January 1980.

As the materials I've provided point out, the problem is not new. Connecticut has experienced a history of boom and bust cycles in its defense industry over the last few decades. The sad thing is that, in spite of years of warnings by some members of Congress, labor unions, concerned citizens, and organizations such as Connecticut SANE/FREEZE and the American Friends Service Committee, nothing has been done to plan for the situation we find ourselves in now.

But now we are not in just another boom-bust cycle. The Cold War is -- finally -- over. And the United States is in serious economic turmoil and decline. These two facts argue the imperative of transforming our dependency on military industry to meet the critical needs we face as a nation:

- to rebuild our crumbling infrastructure -- cities, roads, bridges, and other transportation systems
- to reverse the terrible tragedy of 30 million of our own citizens living below the poverty level -- in the richest nation on earth
- to provide adequate healthcare, housing, and nutrition for all Americans
- to clean up our environment
- to educate our children to meet the challenges of the 21st century

We cannot do this if we continue to pour one-half our tax dollars into the military to build systems we no longer need for our defense, and which we certainly should not be selling to other nations for their offensive as well as defensive use.

The rationale most often given lately for continuing military contracts that had been slated for termination --

"jobs, jobs, jobs" -- is weak at best. Study after study has shown that far more jobs are created in almost any sector of the civilian economy than are created with military spending.

Continuing to build Seawolf submarines and F-15 fighters, to name just two examples, simply because we lack the imagination, determination and commitment to do anything else is an outrage.

Converting our military industry to commercial production to meet the needs I've already named must be the top priority for our state and our nation. While economic conversion has been promoted over the years by members of Congress -- and I'm pleased to include most of the Connecticut delegation among them -- those efforts pale in comparison to the efforts to save contracts like the Seawolf submarine. It happens not only here in Connecticut but all over the country. But those measures are short-sighted and counter-productive in the long run, prolonging the agony of the declining defense industry and giving false hope to Connecticut's defense workers.

The legislation that has passed in Congress is paltry in comparison to the magnitude of the problem -- and to the magnitude of the military budget. Compare the recent $1 billion to $1.2 billion package in Congress now: One billion dollars to address the problem of converting the nation's defense industry -- the same amount we'll spend on one B-2

bomber or one-half of one Seawolf submarine! I ask you, which does this nation need more?

We need much more: We need a national commitment to economic conversion, and that must be nothing short of a new national industrial policy to convert our industries to meet the unprecendented critical needs in the areas of mass transit, waste disposal, environmental clean-up, communications, or simply in rebuilding basic industries like steel, ships, machine tools, electronics -- industries that we sacrificed to the military build-up. In essence, it is the national policy we need to rebuild this country.

That's what will provide jobs -- not just for defense workers, but for the millions of other Americans who've lost their jobs, or who have never had one.

Conclusion

The materials I have put together for you in these packets speak for themselves. They are comprehensive studies that outline clearly the instability, vulnerability, and the boom-bust cycles of Connecticut's defense dependent industry over the last two or more decades. They also articulate the need to prepare for the inevitable decline in defense spending. These materials were produced over the last 13 years by Connecticut peace organizations. The military build-up of the 1980's made ours a small, and often lonely, voice calling for economic conversion. But the Cold War is now really over. And this nation is caught without a plan.

Will we continue to prop up dying industries by selling more and more dangerous and destabilizing weapons to an instable and volatile world in order to save jobs?

Or will we instead face up to the reality and take the bold steps needed to retool our factories and retrain our workers to meet the myriad challenges we face as a nation? Surely the scientists, engineers, and workers who have made the United States the world's most formidable military power can use those same talents to rebuild this nation.

The only thing we lack is the imagination, the courage, the determination and the commitment to make it happen.

Patricia Clemons Wass

Executive Director,
Connecticut SANE/FREEZE: Campaign for Global Security
and Global Security Education Fund

Patricia Wass joined the staff of Connecticut SANE/FREEZE: Campaign for Global Security (then the Connecticut Nuclear Freeze Campaign) in January 1986 as its Development Director, and was hired as Executive Director in March 1989.

In her role as Executive Director, Pat serves as principal spokesperson and liaison for the organization, representing SANE/FREEZE to the media, to members of Congress and other government officials, and to other organizations. She maintains a working knowledge of arms race issues, economic conversion, and the impact of military spending on states and local communities.

Pat became active with the Winsted Area Nuclear Freeze Committee in 1981, served as its co-coordinator in 1983 and 1984, and was a key organizer for several of its ten annual Peace Fairs. She has served on the Sixth District Freeze Steering Committee and the Board of Directors of the Connecticut Nuclear Weapons Freeze Campaign. Prior to joining the staff full-time in 1986, she was the Concert Coordinator for the "Symphony for Peace", a major fundraiser for several area peace organizations held in Hartford in March 1985.

Pat graduated from Montpelier (Vermont) High School in 1965. She received a B.A. from Vermont College of Norwich University in 1983.

Pat lives with her family in Winsted, Connecticut.

Appendix T

Patricia Wass provided as part of her testimony to the Defense Conversion Commission the following materials available from Connecticut SANE/FREEZE Campaign for Global Security, 55 Van Dyke Avenue, Hartford, CT 06106, or the DCC.

American Friends Service Committee, Peace Dividend: How to get it and how to use it, March 1992. AFSC, 1501 Cherry St., Philadelphia, PA 19102.

Kevin Bean and Marta Daniels, More Jobs More Security, June 1985. Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

Kevin Bean, A Connecticut Budget for Jobs and Peace. Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

Kevin Bean, Kevin Cassidy, Edward Deak, Philip Lane and Marta Daniels, The Projected Impact of a Nuclear Weapons Freeze on Connecticut's Economy, May 1986. Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

Marta Daniels, Jobs, Security, and Arms in Connecticut, January 1980. American Friends Service Committee, Connecticut Area Office, RD #1, Box 494, Voluntown, CT 06384.

"Connecticut Arming the World, Conventional Weapons (1973-1987)," February 1988, Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

"Nuclear Connecticut (1981-1986)," October 1987, Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

"Space Weapons Systems and Connecticut (1970-1986)," October 1987, Peace Education, Inc., 55 Van Dyke Avenue, Hartford, CT 06106.

"Connecticut Calls for New Priorities, Put Our Federal Tax Dollars to Work. What Has Happened to Connecticut?" Connecticut SANE/FREEZE: Campaign for Global Security and the National Priorities Project, 1992.

"Connecticut Calls for New Priorities, Economic Conversion: Vital to the State's Economy. But What About Jobs?" Connecticut SANE/FREEZE: Campaign for Global Security, June 1992.

Appendix U

(20)

AERONAUTICAL INDUSTRIAL DISTRICT LODGE No. 91

International Association of Machinists and Aerospace Workers — AFL-CIO
500 Main Street • East Hartford, CT 06118
Telephone: A.C. 203 568-3016

Testimony

By

Andrew D. Romegialli

Directing Labor Representative

District 91

International Association of Machinists and Aerospace Workers

Before The

Department of Defense

Defense Conversion Commission

Thursday, September 17, 1992

Groton, Connecticut

382

AERONAUTICAL INDUSTRIAL DISTRICT LODGE No. 91

International Association of Machinists and Aerospace Workers—AFL-CIO
500 Main Street • East Hartford, CT 06118
Telephone: A.C. 203 568-3016

Andrew D. Romegialli

Directing Labor Representative

District 91

International Association of Machinists and Aerospace Workers

Andrew Romegialli is the elected Directing Labor Representative of IAM District 91 in East Hartford, Connecticut. District 91 represents more than 15,000 bargaining unit workers at United Technologies' four Connecticut Pratt & Whitney plants and Hamilton Standard in Windsor Locks.

Mr. Romegialli began working at the Middletown Pratt & Whitney plant in 1973. Before becoming a full-time Union representative, Mr. Romegialli worked for P&W as a jet engine assembler.

After serving in various elected Local Lodge positions while working in the shop, including Shop Steward, Shop Committeeman, Secretary-Treasurer and President, Mr. Romegialli was elected by the membership of District 91 to serve full-time as a Labor Representative in 1981. He continued in that position until 1989, when he was elected Directing Labor Representative.

Mr. Romegialli lives in Plainville, Connecticut with his wife and two sons.

Affiliated Local Lodges: Lodge 700—Middletown; Lodge 707—North Haven
Lodge 743—Windsor Locks; Lodge 1746—East Hartford; Lodge 1746-A—Southington

Mister Chairman and Members of the Defense Conversion Committee:

My name is Andrew D. Romegialli. I am Directing Labor Representative of District 91 of the International Association of Machinists in East Hartford, Connecticut.

District 91 represents more than 15,000 bargaining unit workers at United Technologies' four Connecticut Pratt & Whitney plants and Hamilton Standard in Windsor Locks.

On behalf of our members, I thank you for the opportunity to talk with you today.

This hearing, and its focus on Economic Conversion, comes not a moment too soon. As you probably know, our Union, the International Association of Machinists, has been speaking of the need to be less defense-dependent for more than 15 years. Unfortunately, many of our most bleak predictions about what would happen with defense workers are now coming true.

I wish that there was time for you to come to the plants we represent, and speak to the workers. You would find that I am not exaggerating at all when I say that there is an atmosphere of fear and despair among those thousands of workers, many of whom have 20 years seniority or more.

Their fear is justified, because loss of a job at Pratt & Whitney or Hamilton Standard right now means you may never come back, despite our strong recall rights. It means you may not even be able to continue to work at the trade you have learned over many years, and almost definitely will not be able to get a job with comparable wages or benefits. If you are able to find another job at all.

We have seen workers with 30 years at Pratt & Whitney laid off in the last year. We have seen a couple, one working at Pratt, and the other at Hamilton, both get laid off shortly after the husband was diagnosed with multiple sclerosis. We have members that tell us their children greet them at home with the question: "Daddy, did you lose your job today?"

Believe me when I tell you that morale is at an all-time low at these plants, and I would guess, at many other manufacturing plants throughout Connecticut.

Since the beginning of 1980, at the UTC plants we represent, we have permanently lost more than 11,000 bargaining unit jobs. We know that during that same time period, thousands of salary jobs have also been cut.

It would be bad enough if this was all behind us, but UTC has made clear that they expect to cut even more jobs, both through attrition and layoffs.

We have, and continue to do everything in our power to convince the company that these cuts, in the long run, are as harmful to them as they are to us. Valuable skills are going out the door, that will be difficult to regain at a later date. We have proposed a number of alternatives to layoffs, and we will continue to pursue these possibilities with management.

Of course, not all of these job losses are defense-related. But

we know that a decline in defense contracts has had an impact. Pratt & Whitney cites it, along with the continuing recession, as a major reason for more job cuts. According to Pratt, in 1982 we built 700 fighter engines. The schedule for 1993 is 50 engines. The recently-approved Saudi and Taiwan sales would have no effect until late 1994.

Pratt & Whitney tells us their current production mix is 80% commercial, 20% military. We estimate that 30 % of the work our members do for Hamilton Standard is defense-related. Clearly we are talking about thousands of jobs between these two companies.

It is also clear that beyond "business decisions" of UTC or any other corporation, that this is a major problem that has to be addressed on a national level.

Since World War II our members have worked under the guidance of a national industrial policy -- even though it was never called that -- of promoting military production. Our members have devoted their lives to the hard work needed to produce those products. They have skills that are matched only by their dedication. All that hard work and expertise now is somehow not enough. People like this should not be losing their jobs. They do not deserve it, and our country cannot afford it.

I am not a policy maker or an economic expert. But I would say, in my own opinion, that we need a new national industrial policy for this country. If not I truly believe we are headed for disaster. It seems as though every nation against which we compete has such a policy, aimed at civilian production, and it is working for them. My members are not economic experts either, but they ask all the time, "Why can't this country do the same thing?"

Because this is a crisis, strong action needs to be taken. Our Union, the International Association of Machinists, has some proposals that I am sure have been shared with you. Let me just touch for a moment on the key points.

-- The federal government need to begin to develop a target list of civilian production possibilities.

-- Companies that take tax dollars for defense production should be mandated to form in-plant alternative use committees that

involve their workers and the Union. This is key to creating a real national dialogue of what may be possible. It would not even cost the government a dime.

-- Companies that have conversion projects should be able to get loans or grants from the government to encourage those projects, as well as other technical assistance to make such a transition.

-- Companies do not want to convert but are displacing workers should have an obligation to provide extended health care benefits, unemployment supplements and retraining allowances to those displaced workers.

-- The federal government needs to greatly expand its commitment to retraining and assisting displaced workers.

-- If companies who have not been defense producers want to take advantage of the loan/grant program, they should be able to, but giving first preference in hiring to displaced defense workers.

I want to speak for a moment on the issue of mandated alternative use committees. I understand that business objects to this proposal, but in many ways it is the most important of all. We have had a recent experience in District 91 that leads me to say that.

United Technologies and the State of Connecticut just announced a unique venture aimed at new markets for Pratt & Whitney. This is the co-generator plant based on the JT9D engine. The state will put up $3 million in guarantees to get the project off the ground, and I am confident it will get a good return on this investment. In many ways it is a model for future possibilities.

It has one major flaw, however, in our eyes. The workers of Pratt & Whitney, and District 91, were totally shut out from the development and discussion about this project. We found out about it, literally, when it hit the newspapers.

Would our involvement have helped? Maybe not. But I believe it would have. We first raised the issue of electrical production based on the gas turbine with the company in 1984, during an earlier series of layoffs. Our members have a lot of knowledge and many good ideas that they are just waiting to share. We have other projects that we think might be viable, if given the chance to work them out.

In the case of the co-generator, we must assume or take it on faith that the state somehow sought job guarantees in exchange for their help. At the same time, I cannot help but feel that our knowledge of the work force, and our extensive experience in negotiating with UTC, would have been helpful in that part of the process too.

UTC may or may not work on conversion. If they develop a new product, even one based on a jet engine, they may just open a new division and not involve our members at all.

We do not feel that is right or fair to our members. Based on our experience we feel it is very important to mandate that Pratt & Whitney and Hamilton Standard at least talk with us and our members about these issues. They may have to be dragged to the table, but I believe once the process has begun, they will benefit from it greatly.

One more point, if I may. We have on our books a Buy American law, to for purchases by the Department of Defense. Though defense budgets are shrinking and Economic Conversion is a necessity, it simply does not make sense to me that $10 to $20 billion of the Defense budget is spent overseas each year by the Pentagon. I have been told that thirty thousand jobs are permanently lost for every billion dollars in defense contracts that goes overseas. This must be stopped.

I started by telling you briefly about the people I represent, what they are going through and how depressed and angry they are feeling. What they need more than anything is some reason to believe that there is some hope, that somebody is actually doing something to turn things around and make things better.

That's why I am here today. I urge you understand how serious and potentially explosive this current crisis is. Give our members some hope that the future will be brighter, because the leadership of this nation is listening and cares. These are good people, who have worked hard, and deserve the right to a decent life based on that hard work.

Thank you.

(21)

Defense Conversion Commission September 17, 1992

I am the Rev. Robert E. Taylor. I live at 141 Hendrie Avenue in Riverside, Connecticut.

Ladies and gentlemen of the Commission, thank you for the opportunity to come before you and share my ideas about the issue of converting the economy of South Eastern Connecticut, from its historic focus of defense related industry, to a diverse and well balanced one.

As I appear before you today I wear a number of hats. A week ago I concluded almost ten years of ministry as the Rector of St. Mark's Episcopal Church in the Mystic area of Groton. I am presently the Rector of St. Paul's Episcopal Church in the Riverside section of Greenwich, Connecticut. During my tenure in Mystic I was instrumental in the establishment and leadership of the Southeastern Connecticut Clergy Association. This association is made up of the 250 or so clergy working in New London County. The focus of our collective work is the increasingly troubling employment situation in our area. This evening I also represent the Bishops and people of the Episcopal Diocese of Connecticut, The Rt. Rev. Arthur Walmsley, Diocesan Bishop.

I hope that in light of the constituency which I represent, it is clear that I come before you as a person of faith. In addition to the very real problems of money, food, rent, health care, transportation and clothing, I am concerned with the effect of the down turn of the economy of South Eastern Connecticut, and of the entire state, as it impacts the spirit of the citizens who live and work here. To live in fear of what might happen can be even more deadening to a person's spirit than the actuality coming to pass.

I have spoken with and worried with people who feared to buy a refrigerator, an automobile, a TV, or even a to go out to dinner. These same people not long ago were part of the engine that drove the economy of this region. Now they are being careful, for fear that they might loose their job, if they have not done so already.

For more than a year we have had a book sitting upon the altar of St. Mark's Episcopal Church. In that book we have asked people to write the names of those they loved who were unemployed. We wanted them and the people whose names were in the book to know that we cared and that they were in our prayers. Many people told us that it helped knowing this. We asked people to put a cross beside someone's name when they were able to find another job. At

this point only two or three names have been crossed out of the 25 to 30 that have been written in the book.

The pain with which people live when they have lost their job or when they fear they will, lays a pall over everything they do. The word depressed might be used to describe the economy of South Eastern Connecticut and many of the people who live here as well. The cost to the human spirit must be considered, if a comprehensive accounting is to be made.

For many of the clergy and other leaders of South Eastern Connecticut the cost to the human spirit of the current reduction in Defense and related industry, has been exacerbated by the advent of casino gambling to our area. Many of us have spent endless hours talking with and encouraging people who have had moral and ethical problems being part of the construction of nuclear weapons. Many of these individuals have felt that they had no choice if they were going to provide for their families. However, to be fair, I must say that it has been a struggle for many people but not all people in this area. While many clergy of South Eastern Connecticut and throughout the state, rejoice that the United States has begun the most serious reduction in the defense industry in our life times; the cost to the human spirit makes us wonder. For some people to trade a job building nuclear submarines for a substantial salary for a job enabling people to gamble for a insubstantial salary is much like jumping from the moral frying pan into the ethical fire.

I hope that when you consider the testimony of the many people who have spoken to you today and at your other hearings, you will conclude that the congress must do all that it can to create solid job opportunities in the non-defense area. For we are not only talking about unemployment, under-employment, 9,000 bankruptcies in Connecticut this year alone, we are talking about the spirit of the people who are the United States of America.

People may disagree about many things as we carve out the future of our country. However, all will agree that it is the spirit of hope, freedom, justice, integrity and even the pursuit of happiness that really makes us the best country in the world to live out our lives and to raise our families. What is happening in our part of the country right now because of the reduction of defense spending is killing that spirit. I urge you to take this wonderful turn in world history and mold it and meld it into the real possibility for creative life that it might be. The people of this county, the people of this state, the people of this country implore you, empower our economy with productive and

worthwhile industry. Enable us to recapture the American dream. Let us recapture our spirit. Thank you.

(22)

STATEMENT OF HON. THOMAS G. MOUKAWSHER
CONNECTICUT STATE REPRESENTATIVE FOR THE 40TH DISTRICT
BEFORE THE DEFENSE CONVERSION COMMISSION
SEPTEMBER 17, 1992

America is making a difficult transition from a Cold War world to an increasingly regionalized and intensely competitive industrial and commercial world in which so far we are the losers. If we are to sustain our way of life and our international status your Commission must recommend that the United States above all develop a coherent national industrial policy.

Just as no country can face a military challenge without a plan no country can face modern industrial competition without a strategy. Currently dozens of disconnected federal state and local agencies create a kind of hodgepodge direction for the flow of government resources to assist industry. From the National Center for Manufacturing Sciences to the Defense Advance Research Projects Agency (DARPA) all affect our military and non-military industrial future but are guided by no specific vision of America.

American fears about a government directed economy have resulted in the creation of many of the tools of an industrial policy but not the blue print to guide where and how these tools might be used. In the meantime, Japan's Ministry of International Trade and Industry (MITI) is providing its country with a centralized vision of how Japan will continually move its way up the industrial food chain.

I am not suggesting that America pick winners and losers. I am suggesting that America recognize and support those who made it to the cutting edge on their own and help wind down those industries whose day is passed.

Only with a central vision of what we want and a central agency like the Ministry of International Trade and Industry can America convert its defense industries to peace time activities.

Finally, as we learned when we were surprised by the Korean War we cannot dismantle entirely our military industries. If we do, when the next crisis confronts us we will find ourselves ill prepared to face it. To me this means above all keeping a strong manufacturing infrastructure for the Navy. Control of the international sea lanes is the single most important guarantor of American security. The construction of a navy capable of controlling those sea lanes also takes the longest to develop. Our nuclear navy should suffer the fewest reductions of all of our services.

Appendix X

MAP

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Testimony before the

Defense Conversion Committee

September 17, 1992

Respectfully submitted by:

Elyse Cann
Machine Action Project

"Last year I advertized for two $6.00 an hour jobs. That was my big mistake. Every day I had people lined up outside for applications. There were old people, young people, women with babies. Begging me for a $6.00 an hour job. They talk about family values. People want to work. They want a job. We've been in the business for nearly 100 years. I could give them a job but I can't compete with foreign prices, ruthless banking policies, and no support for manufacturing."

"I shouldn't tell you this, but insurance costs, health, workers compensation, have gotten so high that I'm going to co-sign with the union a letter of support for national health insurance. It's the only way to help small businesses survive."

"I think its a conspiracy. We're losing our marketing share to Germany and Japan in the machine tools industry. The only sector we protected was defense, and now with the cuts in defense and the environmental regulations, its a bleak outlook. I won't be hiring anyone even if things pick up. I'm investing in labor-saving technologies."

These are the comments of small manufacturers in Massachusetts, manufacturers who relied upon the defense industry for a significant portion of their revenues. They are not Fortune 500 companies like General Electric, Electric Boat or Raytheon. They do the work the primes parcel out. Their story, the story of their shops and their workforce has yet to be told. But they are an important part of the defense story.

These small and medium-sized, locally owned and operated firms represent the crisis facing our state and our nation. The United States is shedding its industrial base like an old skin it no longer needs. A myriad of factors beyond the control of small shops, union members and workers, and regional economists are combining to strip our nation of the industrial capacity to rebuild itself.

The United States won the Cold War, in one sense. But, in another sense, the Cold War was won by our competitors, Germany and Japan. While some may rest, and relish the rapid decline of the Soviet empire, others look deeper to the problems wrought by so much emphasis in our nation to the winning of the war and so little attention to the people and the firms which built the victory.

Since World War II, the US has embarked upon a mission to be the most technologically advanced weapons maker in the world. The best of our national resources, our skills and our capacity for research and development, were focussed upon our defense infrastructure. Our national policies allowed other industries to export jobs and import goods, but our defense industry was sacred. Our nation is not only neglecting its manufacturing base. It is intentionally driving it to low-wage areas of the world.

The Machine Action Project, a state-funded agency created in 1987 to attempt to stem the loss of jobs in the metalworking industry of western Massachusetts has been following industry trends for years and intervening to save jobs where limited federal and state monies permit. Initial studies by MAP of the regional economy disclosed an intricate web of 350 machine shops and metalworking support services that run north on the Connecticut River from Hartford's

aerospace giants. Later studies portrayed a region rich in skills and sporting the newest in technologies. Even now, these firms support as much as 20% of the private sector employment in some local communities. As large defense contractors cut their workforce and their lists of suppliers, each local firm waits to see if it will make the team.

Our research on the state's economy showed that Massachusetts received a disproportionate amount of defense dollars, particularly in the area of research and development. Those monies reshaped the face of eastern Massachusetts, creating the defense corridor on Route 128 and spawning the electronics and computer industries.

Today, Massachusetts sits on a precipice. Textiles, shoes, garments, paper, boatbuilding moved out long ago. The machine tools industry once centered in New England, is now concentrated in Germany and the Far East. The computer numerical control cutting tools industry rests in Japan. The so-called Massachusetts Miracle was short-lived, leaving empty office buildings and unnecessary services. The computer industry is restructuring and tens of thousands of jobs are being lost.

The Industrial Services Program of the Commonwealth, the quasi-public agency that handles Title III, dislocated worker monies, recognized early on that unemployment claims were on the rise in defense firms. The ISP applied to the Economic Development Administration for funds to assess and respond to this situation. Due to the failure of the Pentagon to release the monies, well over a year passed before the ISP could begin its response.

The ISP contracted with the Machine Action Project to conduct statewide research on defense dependency in manufacturing. The research is ongoing and our report should be complete in November. However, let me present to you some preliminary findings of that research and policy recommendations based upon those findings.

We have talked extensively with over 90 CEO's of 5-200-person shops in the plastics, metalworking/machining, and electronics industries. Our selection of firms was random from a list of 1100 Massachusetts manufacturers MAP identified as small prime or subcontractors in the defense industry. More than 50% of firms contacted agreed to participate and welcomed the opportunity to tell their stories, most of woe, to an eager listener.

First, in general, firms in all three industries are not hiring. If there is a need for additional workers, firms are temporarily increasing hours and introducing labor-saving processes. Firms claim health care costs are a major factor not to add new employees or rehire. Continued high levels of unemployment can be expected for years to come.

Second, small firms are angry at the state of Massachusetts and the federal government which, they claim, is only paying attention to the large firms. Several mentioned initiatives like the free trade agreement that will only serve to drive more major corporations to Mexico and in the words of one owner, "Kill small manufacturers".

Horror stories about the banking situation abound. Many small firms claim they kept good credit records only to be undermined by the Savings and Loan scandal and the resulting regulations and credit squeeze. Everywhere, small firms complain that there is no capital available for expansion, investment, or new ventures.

Cash flow problems were cited by many firms which are not receiving timely progress payments from prime contractors. Some primes are not making orders subsequent to the bidding process. In addition, government military contracts are being stretched out, and in the worst case, small manufacturers are being asked to have available a range of goods which may or may not ever be purchased. They have been asked to quote prices for a range of possible amounts of parts, and told prepare for both small or large contracts.

Third, in response to government demands for precision and the highest standards of quality, firms purchased new computerized technologies and technical staffs which now place an extreme burden on overhead costs. They relied upon a phone call of visit to primes for work orders and developed no marketing or sales capacity. Moving into the commercial marketplace will require support, especially for machine shops. Non defense-dependent shops have less overhead, and can charge a lower price for the same quality service or product. Many firms lack even a business plan.

Fourth, moving into the commercial market requires more flexibility and standardization at the same time, leaving firms the responsibility of retraining both managers and workers and refiguring the whole production process.

Fifth, firms have little in-house training capability for either labor or management. Many management skills, especially in machining, were learned on-the-job. Almost no training or retraining programs exist.

Specifically, firms in the machining/metalworking industry are at most risk of the three industries. Of the over 500 Massachusetts machine shops that we identified as defense dependent, there exists an excess capacity of as much as 50%. Due to the similarity of the skills and technology and work process of many of these shops, the state could easily lose 200 of them by the Year 2000. These shops were built on the pillar of defense and with its fall, they have no support. Those that will survive, and in fact, many are healthy, will do so because they have a proprietary product or process and a current share of the commercial market.

Electronics firms tend to have more in-shop engineering and strategic planning capability. They have the capacity to explore other markets. However, electronics firms are heavily dependent upon defense. Essentially, there is no commercial electronics industry in Massachusetts, that exists in the Pacific Rim. Where defense work is spun-off, it goes to the Pacific Rim. Defense dependent electronics firms say their equipment and technology is outdated and shifting to commercial markets will require the purchase of new equipment.

In contrast, the much smaller plastics industry is in better shape, with only a 3-20% reliance upon defense.

The US had an industrial policy for half a century driven by the needs of the Pentagon and prime military contractors and research institutions. It is time for a new world order, one that includes an industrial policy that redirects the use of our national resources, our skills, our people, our small and large firms, and one that looks toward a sustainable future.

The federal government must help to level the playing field among states by establishing a national health care system for all and a sane workers compensation system. Environmental regulations should not vary from state-to-state allowing states to risk their future for job attraction today.

Take economic development out of the hands of the Pentagon and create a new agency of Economic Conversion jointly administered by Labor and Commerce. Through it expand greatly the National Institute of Standards and Technology extension services. Provide a clearinghouse to evaluate capital equipment purchases. Coordinate with local higher education institutions to bring marketing assistance to the firms and the regional planners. Incorporate training functions and Labor-Management skills development into a one-stop technical assistance centers across the nation that are federally funded and locally controlled.

Write into every prime contract in excess of $1 million, a provision that requires planning by a labor and management team for alternative use of the production process. Smaller firms and subcontractors should be given tax credits for initiatives to redirect their resources into commercial production. Demand of primes fair payment schedules for small firms.

Free up credit for investors who live and work and create jobs in local communities. Loans and grants should be made available for employees to buy into their companies and for firms to enhance skills or expand operations.

EDWAA laws must be expanded to one year of advance notification, encouraging states to respond rapidly with additional resources. States which develop rapid response capabilities should be reimbursed by the federal government for their initiaitives at job retention.

Firms should be allowed to use federal dollars and local educational and training facilities to retrain the existing workforce while they are on the job. Workers and managers should be allowed extended time frames for retraining, at least two years of supported assistance in full-time programs.

Research and development must be redirected to the commercialization of an energy-efficient infrastucture and the utilization of scarce resources. Our highly skilled engineers and technicians must be fully redirected towards developing the technologies for the future.

The nation must move from economic adjustment, bandaging the open wound, to a national commitment to redirect the economy through a federally financed, locally administered industrial policy. A national strategy to save the manufacturing base must be put into place immediately. However, the national strategy must be locally carried out with the necessary resources and the representatives of small and large business, labor, and community. Federal

dollars available from defense department cuts should be invested to create wealth, not merely used to provide transfer payments and alleviate the suffering after the fact. We can win the peace. We must put America back to work.

In the words of a near-retirement machine shop owner in Massachusetts:

"I make my living selling parts for guns and bombs, but I don't support it. Russia isn't going to invade us. Saddam isn't going to invade us. We should stop producing weapons and start making trains, transportation sytems, public works. This country has to do what it did in the 1930's. Call it what you want, but we have to create jobs in this country."

MAP

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Elyse Cann

Ms. Cann has a B.A. in Economics, has completed all the requirements for a M.Ed. at the University of Massachusetts in Amherst, and is a certified High School Social Studies teacher. For the past 3 years she has worked as a researcher and coordinator for the Machine Action Project based in Springfield, Mass. Her work has included proactive industrial relations issues from a perspective that encompasses the roles of labor and community. Her responsibilities have centered on technology utilization, training, defense dependency, and assistance to firms and unions on issues of job and business retention concerns.

Ms. Cann has lead MAP's research and activities on defense dependency. In 1990, Ms. Cann organized a special conference on Labor and Economic Conversion for trade unionists, economic developers and peace activists. In 1990 she also directed a survey and study of the subcontracting relationships among metalworking firms in the Connecticut River Valley in conjunction with TECnet (Technologies for Effective Coordination Network) of the National Institute for Standards and Technology's Northeast Manufacturing Technology Center. She has since worked with organizations in Washington State, New York, Connecticut, Missouri, and Maine to develop diversification strategies, and has participated in numerous forums, discussions and committees to address the issues of defense dependency on both a prime and subcontracting level.

At present, Ms. Cann is directing the Machine Action Project's contract with the Industrial Services Program to conduct statewide research on defense dependency among plastics, metalworking, and electronics companies. In addition, she is working with the Machine Action Project staff in collaboration with the Center for Manufacturing Productivity of the University of Massachusetts and the Economic Development Partners of Springfield to develop a diversification strategy for the regional economy.

Ms. Cann serves as a member of the Board of Directors of Mass. SANE/FREEZE Campaign for Global Security, the Executive Board of the Federation for Industrial Retention and Renewal, and the Campaign for Responsible Technology.

Ms. Cann has training as a machinist, and worked as a machinist and machine operator at Dennison-National for eight years, where she also served as a shop steward, negotiating committee member, and editor of the Graphic Communications International Union local's newsletter.

SOUTHEASTERN
CONNECTICUT
**CHAMBER OF
COMMERCE**

Statement by

William D. Moore, President

Chamber of Commerce of Southeastern Connecticut

Before the

Defense Conversion Commission

Thursday, September 17, 1992

Groton, Connecticut

Mr. Chairman, Honorable Members of the Defense Conversion Commission, my name is William D. Moore. I am President of the Chamber of Commerce of Southeastern Connecticut. I am appearing before you today on behalf of the Chamber of Commerce Federation. The Chamber of Commerce Federation is comprised of five Chambers of Commerce serving New London County, ours, the Eastern Connecticut Chamber of Commerce, the East Lyme Chamber of Commerce, the Mystic Chamber of Commerce and Convention and Visitors Bureau and the Westerly-Pawcatuck Chamber of Commerce. Collectively, we represent the 6,000 businesses that are located within the geographic boundary the delineates New London County.

An important question which must be addressed is does the federal

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government have an obligation to help regions that are being impacted by defense reductions? If there is an obligation, what is it, and how can those regions be fairly and adequately assisted?

I believe that the answer is "Yes", to all three questions. The federal government does have an obligation to assist communities evolve during reductions in defense spending. The federal government needs to establish a national policy that will allow for growth and expansion, not only in those communities, but all across the nation.

The economy of Southeastern Connecticut is, as you now extremely defense dependent. Indeed, the linchpin of our region's vigorous economy is a varied and diverse defense industry. Since the before the Revolutionary War, we have been proudly serving as a focal point for national defense. Whether sending men and women to serve in our armed forces, or producing the weapons that have kept our country free, Southeastern Connecticut continues to serve to this day. Groton, for example, is the site of the only battle of the Revolutionary War which was fought in Connecticut. New London, one of the original ports for the Revenue Service which became our Coast Guard is the home of the U.S. Coast Guard Academy. Since 1911, Electric Boat Division has been an integral part of our region. The submarine base in Groton is the home of the "Heart of the Submarine Service". The research

done at the Naval Underwater Warfare Center in New London has helped to make our submarines the finest in the world. And of course, there are thousands of men and women working in private industry, all contributing to our nations's defense.

In 1989, the year for which figures are most readily available, almost 66,000 people were engaged in defense and defense-dependent employment. The county payroll of $2.203 billion included $1.7 billion in defense and defense-dependent payroll. Federal procurement contracts, on a per capita basis totaled $10,858. In 1989, 1,329 prime defense contracts made New London County the most heavily defense dependent county in the country on a per capita basis. Defense spending in New London County was $9,785 per capita. The next closest county was Fort Worth, Texas at $2,852.

In 1991, the State of Connecticut commissioned a study on the effects of defense cutbacks in New London County. That study, done by Regional Economic Models, Inc. (REMI) of Amherst Mass., carried out a series of simulations and reported some critical impacts on New London County as defense spending is reduced. I have attached a copy of the executive summary from that report for your information. I am also including a copy of a report which our Chamber produced titled "The Impact of Defense Spending in New London County". Looking at the best-case scenario developed by REMI, we are confronted with the following. Total

employment will decline in the area by some 13,000 jobs. New London County residents will see a loss of $746 million in total personal income. Disposable income will be reduced by over $580 million. Over the next five years, there will be a $35 million net increase in transfer payments, for example, unemployment payments and aid to families with dependent children. Gross regional output is projected to decline by 10% by 1996. Again, this is the best-case scenario.

Under the worst-case scenario, there will be an employment loss of 27,000 jobs in New London County by 1997, a decline of $1.5 billion in personal income over what would have otherwise been expected. The average wage will decline by $4,700 per year. Total regional output will decline by 25% and transfer payments will increase by $70 million.

There is absolutely no doubt that we are facing a critical need to reduce federal spending. A significant amount of savings can be - and is being - achieved by reductions in Department of Defense spending. The challenge is to minimize the impact on communities, such as ours that are so defense-dependent. The recommendations that you present can significantly help our region adapt to the changing dynamics of federal spending.

Specific issues can be addressed to help encourage business development and

expansion. These issues, most of which can be addressed only by the Congress include reform in tax policy, human resource policy, environmental and natural resource action, and reform with in the federal governmental operation process.

Congress should secure permanent extension of selected expiring tax provisions, including the research and experimentation tax credit and allocation rules, the education assistance exclusion, and the 25% deduction for health insurance for the self-employed. These provisions have been extended repeatedly over the years, usually for twelve (12) months at a time. The lack of consistent policy regarding these provisions and resulting uncertainty regarding their future availability makes long-range strategic planning difficult or impossible for most firms. The benefits to be derived from these extensions are significant. The U.S. Chamber of Commerce estimates that private companies will increase research and experimentation investments by more than $18 billion if such tax credits are extended. Over the long range, well planned research and experimentation will result in an increase in product innovation and efficiencies, will provide for increased international competitiveness and increased certainty in business planning. Permanent extension of the educational assistance exclusion and the 25% deduction for health insurance for the self-employed will allow for greater availability of educational assistance for employees, leading to a better educated workforce, and a greater availability of health insurance for the self-employed, something which we are all critically

concerned about today.

Reduction of the capital gains tax rate to 15% for individuals and corporations and indexing it to inflation is another key to economic revitalization. Such a reduction would stimulate economic growth and promote capital formation. Indexation on the basis of capital assets would eliminate the taxation of purely inflationary gains and lead to an increase in investment. The resulting expanding economy would benefit all income classes and, in turn generate income tax revenues. As a matter of historical fact, capital gains tax reductions have proven to be a revenue raiser for the federal government. Additionally, reform of the current capital cost recovery system to provide for full recovery of capital investment expenditures would create an expansion of investment in all sectors of American business. Indexing depreciation schedules would protect tax depreciation write-offs against inflation, and ensure that companies are allowed to recover the replacement values with their assets during their useful lives. The 1986 Tax Reform Act raised the cost of capital and stifled economic growth by increasing business and corporate taxes by over $120 billion over five (5) years. One of the most significant impacts of that reform was the change in the active/passive loss rules for real estate investment. Immediate action is required to provide for passive loss relief for all real estate participants, thereby stimulating real estate market investment.

Consideration should be given to develop proposals to prevent the loss of intellectual knowledge from the regions which are being impacted by defense reductions. Perhaps this could be accomplished by funding centers or "think tanks" in these regions and easing the process by which private firms can access declassified information. These centers could then develop the products for commercial application and identify the markets that could make use of the products. The creation of a consortium for marketing the intellectual knowledge to countries that need the expertise which we can provide them would be a benefit to all.

One of the most critical issues facing business development and expansion in Southeastern Connecticut is the ability of companies and individuals to raise capital. Incentives have to be made through either more aggressive policies on the part of the Small Business Administration, or by easing the overzealous attacks by regulators on individual banks, or by the Office of the Comptroller of Currency. That's not to say that the regulators should not give careful review to all financial institutions and the loans that they may have. Rather, we should be curtailing some of the overzealous approaches to review of the lending and financial institutions so that capital can once again become available.

A reasonable, rational, realistic approach to health care needs to be presented. A prolonged debate will not be of benefit to anyone. Mandated

employer benefits, or mandated employer provided health insurance is likely an inappropriate solution and assumes that employers do not want to provide coverage, but does not acknowledge the prohibitive factors of affordability and availability. A mandate will force employers to reduce other benefits, or possible eliminate jobs, particularly in smaller businesses. In late 1990, the Partnership on Health Care and Employment found that up to 3.5 million could lose their jobs if federally mandated health care benefits were legislated. A more reasonable and fairer approach must be developed to ensure that all Americans have health insurance. The high cost of health care and the cost of providing health care to everyone is a significant contributor to the high cost of doing business. As a nation, we have moved from spending 9.1% of gross national product on health care in 1980 to spending 12.5% today, with projections of 15%-17% GNP spending by the year 2,000. Employers' health care costs have escalated at more than twice the general rate of inflation in recent years. Costs of health care coverage have risen for decades with no slowdown in sight. 81% of the total private health care coverage for the nation is provided for by business. Self-insurance, cost-sharing and managed health care programs have produced some savings, but cost control remains elusive. Active participation by both providers and consumers is perceived as lacking. Therefore, it is important to secure enactment of legislation emphasizing key incremental reforms, and promote public policies which support private sector initiatives to increase access to health care, to control costs, and to maintain the quality of care. One way of making health

insurance available would be to encourage previously uninsured small groups to begin providing coverage through transitional tax credits and by removing regulatory impediments to group pooling arrangements and extension of the 100% deduction of the health benefit costs to the self-insured.

One of the most significant costs of doing business in the Northeast, as opposed to other areas of the country is the high cost of energy. Indeed, Connecticut in 1989 ranked #1 in the country in terms of the cost for energy, averaging $10.68 per million BTUs, according to the U.S. Dept. of Energy, Energy Information Administration. U.S. dependence on imported oil is increasing while domestic production is declining. The U.S. Dept. of Energy projects 60% reliance on foreign supplies during the next decade. In the Northeast, almost all of our oil is imported. In addition, other sources of U.S. energy face constraints. The nuclear power industry is at a standstill, regulatory delays hinder natural gas pipeline construction, and coal and hydroelectric power are constrained by environmental concerns.

A comprehensive, well-balanced energy policy must be developed which will encourage cost-effective efforts to improve conservation and to encourage production and distribution of traditional and newer forms of energy. Moreover, a pro-growth energy policy which revitalizes the U.S. energy industry would help to create hundreds of thousands of jobs. The most significant source of onshore energy for the

nation would be through the development of the Arctic National Wildlife Refuge (ANWR). Development of the ANWR could supply the nation with one million barrels of oil daily for twenty years. Oil companies and natural gas companies must obtain seventeen major permits and comply with ninety sets of federal regulations to operate on the outer continental shelf. The relief in the permitting process will certainly allow for a tremendous reduction in the amount of oil we import. We here in the Northeast, particularly in Southeastern Connecticut are well aware of the benefits to be derived through the development of nuclear power. Reform of the nuclear power plant licensing process can be achieved without compromise in public participation in the process, or public health or safety. We here recognize that nuclear power is safe, can be economical and is essential to meeting future U.S. energy and environmental needs.

These, then are our recommendations to the Defense Conversion Commission. I recognize that many of these recommendations will require legislative relief. However, I believe that the Commission can significantly help to mitigate the impact that defense reductions will have in our region, and across the country, by pressing for these proposals. Business and industry will respond to incentives for investment. It is important for our future growth and that a national tax policy be developed which encourages investment and production. Health care costs must be controlled, and at the same time, health care must be made available to all. The high cost of

energy must be resolved, and our increasing dependence on foreign oil must be curtailed.

The recommendations that come from this Commission can help to establish a national agenda which will lead to job creation and increased productivity as we head towards the year 2,000.

On behalf of the Chamber of Commerce Federation, I want to thank you for the opportunity to appear before you today. If you have any questions, I will be happy to answer them.

Executive Summary
Regional Economic Impacts

The Connecticut Department of Economic Development has, in collaboration with Regional Economic Models Inc. (REMI) of Amherst, Massachusetts, carried out two simulations which depict the impact on New London County of a loss of submarine contracts for the Groton location of the Electric Boat Division of General Dynamics. In the best case scenario, which calls for one Seawolf contract per year for the next five years, employment in Groton will be reduced almost 7000 jobs through a combination of attrition and layoffs. In the worst case scenario, employment in Groton is phased out entirely over the next 6-7 years.

For each of these two, rather bleak, scenarios we have used the sophisticated modeling system developed by REMI to depict what the economic and demographic impact would be on the New London County area. Examining first the one submarine/year scenario we note the following:

- In five years time, total employment in the area will have declined by some 13,000 jobs; 6500 of these in the manufacturing sector, the remainder will be lost primarily in services and trade. This is approximately a 10% reduction in the local labor force.

- During the same period, employment elsewhere in CT will fall by an estimated 2000 to 4000 jobs.

- There is an anticipated loss of $746 million in total personal income for county residents.

- Disposable personal income will have been reduced by over $580 million. This will have an enormous impact on local markets.

- Over a five year period, there will be a net increase of $35 million for transfer payments (unemp., AFDC, etc.) creating an additional burden on already strained state and local resources.

- Over the five year period, there will be a population decline of close to 10,000 as adverse economic circumstances force people to move elsewhere in order to support themselves.

- The total gross regional output will decline by roughly 10% by 1996.

ECONOMIC IMPACT SIMULATION FOR NEW LONDON COUNTY

The Policy, Planning, and Research Division of the Connecticut Department of Economic Development has carried out an economic impact study to model the effects of certain actual and proposed defense-related cutbacks in New London County. In collaboration with Regional Economic Models Inc. (REMI) of Amherst, Massachusetts, we have depicted the economic and demographic consequences of the following job losses for the years indicated:

Employer	91	92	93	94	95	96	total
Electric Boat		688	1224	1988	1376	1376	6652
United Nuclear	400	100					500
NUSC	500	500	500				1500
NUSC Contractors	500	500	500				1500
Federal Military	1500	600	600	600	600		3900
total	2900	2388	2824	2588	1976	1376	14052

Should these losses materialize, the impact on Southeastern Connecticut would be catastrophic. The impacts listed below represent the difference between a baseline forecast, which assumes no exogenous shocks, and a revised forecast based on the losses in the preceding table. The expected outcomes by 1996 would include:

-a loss of over 21,000 jobs from the county of which 6300 would come in manufacturing and most of the remainder in trade and services.

-a reduction of $1.2 billion in personal income in the region.

-a loss of disposable income in excess of $900 million which will have an enormous impact on local markets.

-Over the five year period, there will be a population decline of 24,000 over what would have otherwise been expected due primarily to out-migration.

-regional output will decline by over a half billion dollars.

-the total regional output will decline by approximately 10%.

-the average wage in the region will decline by over $3,000 annually.

-related job losses elsewhere in Conn. of up to 5,000.

Under the worst case scenario (i.e., no new subc[illegible] contracts), we can expect the following sorts of impac[illegible]:

-A total employment loss of 27,000 jobs in New Lo[illegible] County by 1997. Well over half of these lost job[illegible] be in the manufacturing sector, a staggering los[illegible] region with one of the highest levels of depend[illegible] manufacturing in the state. Most of the other l[illegible] would occur in the trade and service sectors.

-A decline of $1.5 billion dollars in personal income over what would have been expected otherwise. This is a decline of almost 30%. Removing this much money from the local economy would have a devastating effect on the regional trade and service sectors.

-A loss of over half the disposable income in the country.

-An out-migration of over 20,000 people as economic conditions deteriorate.

-The average wage in the area would decline by $4700 per year.

-Total regional output would decline by close to 25%.

-During this period transfer payments will increase by more than $70 million over what would otherwise have been expected.

-Related job losses elsewhere in Connecticut of up to 10,000.

Subcontracting at Electric Boat

The level and distribution of subcontracting dollars from Electric Boat in the northeast is substantial. In 1989, EB spent over a quarter of a billion dollars in eight states (NJ, NY, and New England) for the purchase of supplies or manufactured components. Of this amount, over 25% or $70.2 million dollars, was expended in Connecticut.

In the past five years EB has purchased products or services from over 2000 Connecticut businesses. In 1989, there were almost 100 companies whose dealings with EB were in excess of $100,000. Of these 65, or approximately two-thirds, will be severely impacted, possibly to the point of closure, by the loss of EB's business. These 65 companies employ over 10,000 people throughout the state and pay wages in excess of $440,000,000 dollars annually. Most of these companies are

not located in New London County and therefore are not counted in the lost job estimates developed through our modeling program.

Spring 1991

SOUTHEASTERN
CONNECTICUT
CHAMBER OF COMMERCE

The Impact of Defense Spending in Southeastern Connecticut

Bozrah
Colchester
East Haddam
East Lyme
Essex
Franklin
Griswold
Groton
Lebanon
Ledyard
Lisbon
[illegible]ville
Mystic
New London
North Stonington
Norwich
Old Lyme
Old Saybrook
Preston
Salem
Sprague
Stonington
Voluntown
Waterford
Westerly, RI

388

105 HUNTINGTON STREET ONE WHALE OIL ROW NEW LONDON, CT 06320 (203) 443-8332 FAX (203) 444-1529

EXECUTIVE SUMMARY

The linchpin of Southeastern Connecticut's vigorous economy is a varied and diverse defense industry.

* The employed labor force of 110,670 is comprised of some 66,000 engaged defense and defense-dependent employment. Defense and defense-related payroll in Southeastern Connecticut is $1,500,000,000-$1,700,000,000

* The payroll in the county was $2,075,715,000.

* 72% of Southeastern Connecticut's payroll is defense dependent.

* 1,329 prime defense contracts were awarded in New London County, worth some $2.5 billion in 1989.

* The value of major defense contracts awarded in Connecticut in FY 1990 dropped 30.3% to $4.24 billion (down from $6.08 billion in 1989). Southeastern Connecticut shares in approximately 41% of all contracts awarded.

* General Dynamics Corporation Electric Boat Division (EB) is the largest employer in Southeastern Connecticut, and the largest defense contractor. Annual expenditures in Connecticut by General Dynamics are in excess of $716,000,000.

* The U.S. Navy presence is through the Naval Submarine Base New London-Groton, Squadron Ten at State Pier in New London, the USS Fulton also at State Pier, and Naval Underwater Systems Center (NUSC) in New London. Annual expenditures in Connecticut are in excess of $439,000,000 for FY 91.

* The U.S. Coast Guard, although Department of Transportation is present as the U.S. Coast Guard Academy; Station New London; the Research & Development Center; Central Oil Identification Laboratory (COIL); and International Ice Berg Patrol. Annual expenditures in Southeastern Connecticut are in excess of $66,000,000.

* NUSC (New London) plays a significant role in our region's economy. For fiscal year 1990, NUSC/New London employed 1,495 civilians and had a payroll of $60,734,269. Contracts awarded by NUSC/New London to companies with offices in Southeastern Connecticut totaled $105,004,443.

* Hundreds of smaller companies employ thousands in our local workforce that are dependent upon NUSC/New London.

* The impact of reduced defense expenditures in Southeastern Connecticut are already being felt. Actual lost defense jobs, or defense jobs scheduled to be eliminated during 1988-1990 total slightly more than 3,000.

* Additional announced, planned or proposed cutbacks in direct military presence and defense contracts in our region will have a staggering impact on our economy.

* The decommissioning of the Fulton will result in the loss of a $28.9 million annual payroll and a crew of 1,500 and their families.

* Inactivation of older SSBNs and support functions coupled with inactivation of older SSNs without equal replacement will result in the additional loss of $49.5 million annual payroll and the loss of 900 attendant crew.

* The retirement of SSBNs (POSEIDEN) based in Holy Loch, Scotland means 1,500 personnel and their families will no longer be at the Sub Base.

* The last TRIDENT Class contract has been awarded to Electric Boat Division. Loss of a second SEAWOLF Class contract, and a reduction in the number of future SEAWOLF contracts point to a reduction in employment at Electric Boat from 17,000 in Groton (23,000 total CT/RI) to 7,500 by 1996.

* For every defense job lost, at least 2.5 non-defense jobs will be lost. An additional 3,000 defense jobs will be eliminated over the next 18 months. These cuts do <u>not</u> include proposed reductions at EB, or the cuts at NUSC.

* Past lab consolidations have resulted in upwards of 50% attrition in the workforce. The loss of the professional workforce cannot be measured in dollars, as a direct impact on the region's economy.

* Normal recovery from the current recession will be impossible if proposed reductions and consolidations take place. A soft regional economy will become depressed.

* Reductions in income will impact every business in Southeastern Connecticut.

* The U.S. Department of Housing and Urban Development has already invested millions in the Shaws Cove Urban Renewal Project in New London.

* The creation of the Enterprise Zone in the Shaws Cove Urban Renal Project has served as a lure for corporate relocation to the area for NUSC contractors. That has resulted in at least $25 million in private sector investment.

Summary

The role of defense dollars in Southeastern Connecticut cannot be overempahsized. The direct dollar loss of an Electric Boat ($716,000,000), or NUSC/New London ($165,738,712) would be substantial. The loss of the FULTON ($28.9 million in payroll) coupled with the loss of older SSBNs and SSNs ($49.5 million) is going to have a devasting impact.

Using NUSC/New London as an example and a multiplier of 2.5, the loss would translate into $414,346,780 from the economy of Southeastern Connecticut.

The total direct impact of defense dollars (Electric Boat and U.S. Navy) on our region's economy is $1,155,000,000. Using the conservative multiplier of 2.5, the direct and indirect impact of defense spending in our region is $2,887,500,000.

The potential for "brain drain" from the region's economy cannot be measured in terms of dollars.

Southeastern Connecticut would be crippled by major relocations and cutbacks in defense spending. The outlook for the region's economy in the short term, if proposed realocations take place is an economic depression. Long-term recovery would take years.

Southeastern Connecticut (hereinafter defined as being New London County) is a 750-square mile region made up of twenty-five cities and towns. The population of this dynamic corner of Connecticut is some 254,957. According to the U.S. Department of Commerce "County Business Patterns 1988" (the most current year for which data is available), there were some 6,002 companies doing bussiness in New London County.

The linchpin of Southeastern Connecticut's vigorous economy is a diverse defense industry. The significant contributions that the defense industry has played in our region can be traced to the very founding of our nation.

There is no doubt that reductions in federal spending will be necessary in order to get the massive federal deficit under control. Those reductions should be made, however, with an eye on the impact that they will have on local economies. The purpose of this report is to present a fair representation of defense spending in our region.

Announcements of reductions in the military presence are, indeed, a serious concern to all who live and work in Southeastern Connecticut. Reductions in, and the elimination of defense contracts awarded to Southeastern Connecticut companies are already severely impacting on our region's economy. During the past two-years, more than 3,000 jobs have been lost to defense cutbacks. Another 3,000 defense jobs are scheduled to be cut during the next 18 months. Realignments in federal defense facilities, i.e., Naval Underwater Systems Center/New London will exacerbate an already dangerous threat to our local economy.

Southeastern Connecticut's employed labor force of 110,670 is comprised of some 66,000 engaged in defense and defense-related employment. According to the Connecticut Department of Economic Development (DED), in 1989, defense and defense-related payroll estimates for Southeastern Connecticut were $1,500,000,000 to $1,700,000,000. The total payroll for the county is slightly more than $2,100,000,000.

In 1989, 1,329 prime defense contracts were awarded to Southeastern Connecticut firms worth some $2,500,000,000. Per capita defense spending in Southeastern Connecticut is roughly $9,500.

In 1990, Connecticut suffered from a significant reduction in the amount of defense contracts that were awarded. The $4,240,000,000 awarded was down 30.3% from the $6,080,000,000 awarded in 1989. Southeastern Connecticut shares in approximately 41% (or $1,738,400) of the defense contracts awarded in Connecticut.

Exactly how significant of a role does defense

spending play in our region's economy? The largest employer in southeastern Connecticut is the General Dynamics Corporation Electric Boat Division. As the largest defense contractor in our region, and the second largest employer in the state, EB's annual expenditures in Connecticut exceed $716,000,000.

The U.S. Navy's presence in Southeastern Connecticut is through the Naval Submarine Base New London-Groton, Squadron TEN at State Pier in New London, the USS Fulton in New London, and the Naval Underwater Systems Center (NUSC)/New London. Annual navy expenditures in Connecticut will exceed $439,000,000 in FY 1991.

The U.S. Coast Guard, although Department of Transportation, is present through the U.S. Coast Guard Academy, Station New London, the R & D Center, COIL Laboratory and International Ice Berg Patrol, which are in Groton. Annual Coast Guard expenditures in Southeastern Connecticut for FY 1991 will exceed $66,000,000.

NUSC/New London, as an entity plays a significant role in our region's economy. IN FY 1990, NUSC/New London employed 1,495 civilians, and had a payroll of $60,734,269. Contracts awarded by NUSC/New London to Connecticut companies totaled $105,004,443, mostly to Southeastern Connecticut-located firms. NUSC/New London's contract awards are responsible for thousands of jobs throughout our region.

Additional, announced, planned or proposed cutbacks in direct military presence and defense contracts in our region will have a staggering impact on our local economy.

The decommissioning of the USS Fulton will result in the loss of $28.9 million annual payroll, and a crew of 1,500 and their families. Deactivation of older SSBNs and support functions coupled with deactivation of older SSNs without a like-number replacement will result in the loss of an additional $49.5 million payroll, and the loss of some 900 attendant crew. The retirement of SSBNs (POSEIDEN) based in Holy Loch, Scotland means 2,500 personnel and their families will no longer be rotated for training at the submarine base. The last TRIDENT Class contract has been awarded to Electric Boat Division. Loss of a second SEAWOLF Class contract, and a reduction in the number of future SEAWOLF contracts points to a reduction in Electric Boats labor force from 17,000 in Groton (23,000 in CT and RI) to 7,500 by 1997. Reductions in the U.S. Coast Guard include replacement of the Vigorous with a smaller cutter will reduce the crew size from 110 to 20.

The impact of these proposed cuts will be severe in an economy that is already suffering through a recession.

According to a report issued by the U.S. Chamber of Commerce in 1984, "What 100 new Jobs Mean to a Community", retail spending is roughly 76% of aggregate personal income. The removal of a $61 million payroll would remove $46.36 million from retail spending power in our region.

Using a conservative multiplier of 2.5 for total spending, the removal of a $166 million federal facility has the potential of removing $415 million from our region's total economy. Reductions in defense spending beyond those cutbacks proposed for NUSC/New London will mean that Southeastern Connecticut, as we know it today, will no longer exist. The potential for lost state tax revenues is severe, thereby wrecking havoc with an already tenuous state budget.

These are the hard costs associated with the proposed closings. The loss of the professional workforce cannot be measured in dollars as a direct impact on the region's economy.

Any proposed reductions in defense spending, indeed federal spending, must be done with an eye towards their impact on local economies. As can be seen from the above, the loss to Southeastern Connecticut and to the state will be devastating. Southeastern Connecticut has benefited tremendously from the presence of a strong defense presence. A reasonable argument is that the Defense Department has also benefited from a strong presence in southeastern Connecticut. Changing that relationship will have not only a devastating impact on our region, but on our nation's defense as well.

Statement Of

United States Senator Claiborne Pell

Before the

Department of Defense, Defense Conversion Commission
Groton, Connecticut
September 17, 1992

I have long believed that the need to convert from an economy heavily dependent on defense spending was inevitable. The question for me was not whether the Cold War would end, but when and how it would end. On the basis of this view, I have maintained that defense conversion was not only desirable but necessary. The collapse of Soviet communism and the East Bloc, has brought the Cold War to its end more quickly than all but a few would have dared to predict. We are now confronted by a situation we did not foresee, at least in terms of its timing and its extent. At many levels we are unprepared for what has happened. Plans and capacity are not in place to undertake defense conversion activities broadly conceived.

I am pleased to have sponsored legislation that was incorporated into the Defense Authorization Act for Fiscal 1991 and provides $150 million through the Department of Labor for services to dislocated Defense workers and $50 million through Economic Development Administration to assist impacted States and communities. The current Defense Authorization would double this

funding, but this is still a small step in defense conversion. I am also proud to have served as a member of the Pryor Task Force which has made comprehensive legislative recommendations for Defense conversion. I recognize, however, that efforts by Congress are not sufficient. Creative and conserted action is needed in the Executive Branch and especially within the Department of Defense if viallly important conversion initiatives are to be successful.

The pupose of this statement is to identify several areas where Department of Defense creativity and action are called for. I shall begin by making a few observations specific to the Electric Boat Division and General Dynmanics. Next I shall endeavor to place conversion efforts in the context of the Southern New England economy and the nature of the Defense production capacity to be converted. I shall offer some observations about how our Federal system impedes conversion, and I shall make recommendations for action by the Department. I have concluded that it is in the interest of the Department, and consistent with its mission, to be engaged fully in Defense conversion.

As we all know, Southeastern Connecticut and Southern Rhode Island are the home of a major defense contractor, the Electric Boat Division of General Dynamics, that believed it could survive indefinitely on defense work. It fought hard to win Sea Wolf and it hoped Sea Wolf would carry it to Centurion. This Corporate policy presupposed a global adversary that made Sea Wolf a necessary and

prudent investment. The adversary has disappeared, and with it apparently has disappeared the need for a full scale Sea Wolf program. This not what General Dynamics Corporation had expected, and while I am gratified by recent efforts within the Electric Boat Division to pursue non-submarine business, I am worried that as these efforts now stand, they may be too little and too late. They ought to be upgraded substantially by General Dynamics Corporation.

Rhode Island and Southeastern Connecticut need a catch up program for diversification by General Dynamics. The people of this region deserve nothing less than what a sustained conversion effort over half a decade would have yielded. This will require a significant commitment of resources. Fortunately, General Dynamics is among the wealthiest Corporations in the United States. It has profited handsomely on Defense contracts. Now is the time for General Dynamics to reinvest in itself and in the community. As General Dynamics' primary customer, it is incumbent on the Department of Defense to assure that that investment occurs.

While we all hope that high levels of Defense spending will never again be necessary, history teaches us that at some point such spending will again be needed. It is therefor prudent from a Defense perspective to preserve the investments which have been made in developing a Defense production infrastructure. The question becomes one of trying to accomplish this preservation in an economical manner. I submit that conversion preserves Defense

production capacity economically. It would be folly to allow the extraordinary capacity which has developed around Electric Boat to be dissipated, it needs to be put to work generating wealth for the region and the nation.

As we undertake the tasks of conversion, we must be guided by realism. We must, I believe, make our commitments commensurate with the challenge. If the challenge is great, the commitment to it must be great as well. How do we go about defining the depth of the challenge? First, we must assess the condition of the ambient economy. Second, we must determine the degree to which the particular defense production capacity is specialized. And third, we must examine the extent to which the structures of Federalism may impede conversion efforts.

The United States has had conversion efforts before, after the Second World War and after the Korean and Vietnam conflicts, to mention three in this half century alone. After the Second World War, the United States was the world's one great economic power, and although the challenges before our nation were great, we essentially had no competitors. Furthermore, there was tremendous pent up demand for consumer spending. After the Korean and Vietnam conflicts, the contest with the Soviet Union as a global superpower remained: while the demand for military personnel and materiel could be reduced, the level of strategic capacity and vigilance could not. Furthermore, the United States was still the world's

preeminent economic power. Now, the United States is challenged globally by Pacific rim countries, led by Japan, and by European countries, led by Germany.

As a vibrant economy requires little stimulus, the opposite is called for in a weak economy. What are the economic conditions in the region, that is a crucial question in defense conversion. The economy of Southern New England is in severe recession, Wayne Anders, chief economist of the Bank of Boston recently described it as "deepest since the 1930s." Unemployment rates are high, and have approached 10 percent in Rhode Island. Job losses have been the highest in the nation: Rhode Island led the nation with 8.9 percent decline in jobs, Connecticut was second with an 8.2 percent loss, and Massachusetts was third with a 7.8 percent loss. In terms of income growth, Rhode Island ranked 50th, Connecticut was 48th, and Massachusetts was 46th. Currently, projections are that the region's employment levels may not return to what they were in the late 1980s until after the year 2000. In other words, the current recession is projected to last longer than the Great Depression. I often wonder how Mr. William A. Anders, chief executive officer of General Dynamics, as a major employer in the region intends to address this situation.

In view of the anemic condition of the Southern New England economy, it is appropriate to provide substantial doses of programmatic assistance. Simply to withdraw Federal economic

activity, such as Defense, from the region would exacerbate already distressed conditions. On the other hand, in regions where economic conditions are comparatively buoyant providing economic stimulus may not be so critical.

In this depressed regional economy we are confronted by a defense production capacity that is specialized and for which commercial applications have not as yet been well developed. This situation calls for especial staying power and persistence if good results are to achieved. While all military vehicles are inherently specialized, nevertheless it must be recognized that submarines are exceptionally specialized. The technologies used to produce aircraft, land vehicles, surface ships, and missiles have already developed commercial applications. Nothing similar exists now in the commercial sector for submarine production capacity. Indeed Defense and Navy policy for the development of the nuclear Navy discouraged to the point of prohibition dual use of nuclear submarine production capacity.

Dual use of submarines, and the application of underwater technology to the exploration and environmentally sound development of the Exclusive Economic Zone, these are possibilities that hold promise, I believe. The universities of southern New England, including the University of Rhode Island, the Naval Undersea Warfare Center, the Submarine Signal Division of Raytheon, the Electric Boat Division of General Dynamics are a few prominent

examples of capacities within this region that should be brought into conjuction, with assistance from the Department of Defense.

It is also useful to recognize as we commence the effort to meet the challenge of defense conversion that our wonderful Federal system may present obstacles to the easy attainment of conversion goals. State government should be and is a primary actor in the process. By Constitutional design, the mechanisms of interstate cooperation are limited, and Federal support for such mechanisms as have existed was seriously curtailed during the last decade. The need for interstate cooperation in Defense conversion, I believe, is great. At Electric Boat, management and engineering capacity are principally located in Groton, Connecticut, while advanced manufacturing capacity is located at Quonset Point, Rhode Island. Naturally, Connecticut finds it difficult to invest money in management and engineering for work that may be manufactured in Rhode Island, and Rhode Island finds it difficult to invest dollars in management and engineering in Connecticut. This spring Terrence Murray, President of Fleet National Bank, New England's largest financial institution, gave remarks in which he observed that Defense economic adjustment is a regional problem that must be tackled on a regional basis. Mr. Murray's observation were prescient, I submit.

Federalism involves a distribution of governmental responsibilities and activities, as well as the structure of

governmental powers.

A second area of weakness in our governmental system, which affects Defense conversion, is that we have neglected some pressing responsibilities. While we have been attentive to worker and to community problems (the Economically Dislocated Worker Assistance and the Economic Development Administration are well established programs which only need additional resources and fine tuning), we have discounted the challenges of technology commercialization and industrial base preservatiion. State and local governments have developed systems to deal with the former, while programs to deal with the latter are inchoate at best. I believe that it is better to save jobs and create new jobs, preferably within existing firms, than it is to attempt to ameliorate the traumas suffered by displaced workers.

Furthermore the United States does not have a national system of health care that assures at least a basic level of coverage to all people. This deficiency places heavy burdens on dislocated workers, many of whom may have assets or income that disqualifies them from welfare benefits. COBRA assures that health benefits can be continued through the dislocated worker's previous employer, yet unemployment compensation benefits may not be sufficient both to cover the cost of these benefits and to leave enough to live on. Imagine the plight of a middle class family with children, one of whom has a serious medical condition, the wage earner with benefits

becomes unemployed due to defense reductions. Unemployment compensation provides $200 per week, COBRA continuation of health benefits costs $400+ per month, what is the family to do: starve? sell its home? Imagine the stress that creates.

There arises from this situation a responsibility which I believe it is our moral obligation to meet, I have introduced legislation (S.2692 and S.2906) to address it, yet while this and other legislation is pending, we should not allow families to be savaged by the problem.

I wish to recommend that the Department of Defense institute policies and practices that:

1. Affirmatively encourage Defense contractors, within the limits of their ability, to engage fully in conversion; Corporations which do the least in this regard not should end up the richest, public funds should not reward bad public policy; (With regard to this point, I am pleased to advise you that I am offering an amendment to the Defense Authorization Act which would give incentives to defense contractors that actively plan for conversion.)

2. Make Defense conversion assistance commensurate with need, to this end, specific consideration should be given to regional and local economic conditions and the extent of difficulty of conversion;

3. Foster interstate cooperation for Defense conversion: Defense contractors often operate on a multi-State basis and the

opportunities for businesses to form alliances pursuing non-Defense work are also likely to be interstate;

4. Assess which military production capacities are most important to preserve and what conversion and dual use opportunities are most likely to accomplish this preservation, and

5. Work with Defense contractors to assure that during down sizing, workers and their families are not left without medical coverage. The Department should explore how its medical service system might be used to provide medically necessary services to dislocated defense workers and their dependents: as military strength is being reduced, the capacity developed to serve a larger force might be employed to help dislocated defense workers while they are in transition.

The Department of Defense I believe should give sustained and special attention to Defense Conversion efforts that are multi-state and address the challenges of technology commercialization, particularly dual use, and industrial base maintenance.

In conclusion, as we look forward to the middle of this decade and to the next century, we must consider what will happen if we do nothing, and we must consider what the result would be if commit the effort and resources necessary to meet our goals for Defense conversion. I note that the strategic planning and gaming capacities of the Naval Education Training Center in Newport could be truly valuable in this effort.

If we do nothing, it is entirely possible that we will lose important components of our Defense production capacity, such as Electric Boat. In terms of national security and regional economic impacts this outcome, I submit, is unacceptable. Thus we must choose the alternative. This will require initiative on the Department of Defense. In this statement I have suggested areas that seem to require attention.

I believe that submarines are the least destabilizing strategic weapons system and that they are critical to a nation and world dependent on the international movement of goods, commodities, and raw materials. Thus the maintenance of advanced submarine production is critical to national defense, although the immediate demand for additional, sophisticated submarines may be limited. The Department of Defense and the Navy should have a vital interest in what happens here in Groton, Connecticut, and in Quonset Point, Rhode Island, where Electric Boat has the world's premier submarine manufacturing facility.

Strong Department of Defense commitment to conversion and dual use of the superb technological and manufacturing capacity developed for the production of nuclear submarines is, I submit, in the interest of the Department. The benefit is to the Department as well as to the Southern New England region. I commend the Department to the task at hand.

Summary of Statement
by
United States Senator Claiborne Pell
before the
Department of Defense, Defense Conversion Commission
Groton, Connecticut
September 17, 1992

1. Successful Defense Conversion is in the interest of the Department of Defense and States and localities.

2. Defense Conversion will not be easily accomplished because the economy is weak and Defense production capacities are specialized. The Department of Defense should be actively involved in industrial base preservation.

3. Defense prime contractors, such as General Dynamics Corporation, should be actively encouraged by the Department of Defense to make strong commitments to Defense Conversion.

4. Defense Conversion is an interstate issue, yet the mechanisms of interstate cooperation are weak, therefor the Department of Defense needs to lend its weight and support to the development of such mechanisms.

5. The cost of health care coverage is a vexing and extremely troubling problem for dislocated defense workers. Every measure of creativity should be engaged in alleviating this problem. The Department of Defense should consider use of military medical capacity to address it.

Kenneth F. Payne
Federal Projects Coordinator
United States Senator Claiborne Pell (D-RI)

Kenneth F. Payne is Federal Projects Coordinator for United States Senator Claiborne Pell. Senator Pell is Chairman of the Senate Committee on Foreign Relations and Chairman of the Education Subcommittee of the Senate Committee on Labor and Human Resources, of which he is the senior member. Senator Pell is a longtime proponent of Defense conversion and is author of legislation on the topic. Senator Pell was a member of the Senate Majority's Defense Conversion Task Force, which was chaired by Senator Pryor.

In his capacity as Federal Projects Coordinator, Mr. Payne handles non-legislative domestic issues. Mr. Payne has been engaged in Defense Conversion issues since joining Senator Pell's staff in 1988. Areas in which Mr. Payne has worked include: technology transfer and industrial base preservation, worker retraining, and community impacts. Representing Senator Pell, Mr. Payne has worked with the National Governors Association, the Coalition of Northeastern Governors, the New England Training and Employment Council, the State of Rhode Island, and Rhode Island cities and towns on Defense Conversion issues. Mr. Payne is a member of the Advisory Council to the State of Rhode Island's OEA funded Defense Economic Adjustment study.

Prior to joining Senator Pell's staff, Mr. Payne was Executive Director of the Rhode Island League of Cities and Towns. Mr. Payne holds a Masters Degree in Community Planning and Area Development from the University of Rhode Island.

 Nancy 25b

JACK REED
2ND DISTRICT, RHODE ISLAND

COMMITTEES
EDUCATION AND LABOR
JUDICIARY
MERCHANT MARINE AND FISHERIES

Congress of the United States
House of Representatives
Washington, DC 20515-3902

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STATEMENT OF THE HONORABLE JACK REED

BEFORE THE DEFENSE CONVERSION COMMISSION

SEPTEMBER 16, 1992

GROTON, CONNECTICUT

MEMBERS OF THE COMMISSION, I AM PLEASED THAT THE COMMISSION CHOSE SOUTHERN NEW ENGLAND AS A SITE FOR ONE OF ITS FIELD HEARINGS. I AM HARD PRESSED TO THINK OF AN AREA WHOSE ECONOMY AND FUTURE IS SO INTERTWINED WITH DEFENSE MANUFACTURING.

INDEED, ACROSS THE BORDER IN RHODE ISLAND, DIRECT DEFENSE SPENDING IS ESTIMATED TO BE ALMOST $850 MILLION. DEPARTMENT OF DEFENSE SPENDING PER PERSON IN MY STATE IS $823. OVER 13,000 RHODE ISLANDERS ARE DIRECTLY EMPLOYED BY DEFENSE CONTRACTORS. IT IS IMPORTANT TO NOTE THAT THIS FIGURE ONLY ACCOUNTS FOR THOSE EMPLOYED BY PRIME DEFENSE CONTRACTORS -- NOT THE SMALL MACHINE SHOPS OR PARTS SUPPLIERS.

IN THE WAKE OF THE END OF THE COLD WAR, DEFENSE SPENDING IS DECREASING AND THE EFFECTS OF THESE CUTS ARE VISIBLE THROUGHOUT THIS REGION. AS PROFESSOR DISNEY TESTIFIED EARLIER, RHODE ISLAND LOST ALMOST 4,000 DEFENSE JOBS FROM 1988 TO MID-1991 AND ALMOST ONE-FIFTH OF THE UNEMPLOYMENT COMPENSATION CLAIMS IN 1991 WERE DUE TO DEFENSE RELATED JOB LOSSES.

WE HAVE BECOME A NATION OF CONSUMERS, NOT PRODUCERS. FOR THE PAST TWENTY YEARS, THE ONLY SIGNIFICANT MANUFACTURING SECTOR OUR GOVERNMENT SUPPORTED WAS DEFENSE CONTRACTING. TODAY, WE FACE THE CHALLENGE OF CONVERTING OUR DEFENSE MANUFACTURING SECTOR INTO PEACE-TIME MANUFACTURING.

AS THE COMMISSION HAS MORE THAN LIKELY HEARD, CONVERTING MAJOR DEFENSE CONTRACTORS LIKE ELECTRIC BOAT WILL NOT BE AN EASY TASK. DEFENSE CONTRACTORS HISTORICALLY HAVE ONLY ONE CLIENT, THE FEDERAL GOVERNMENT. THEY LACK MARKETING SKILLS. THEY DON'T DEVELOP PRODUCTS, BECAUSE THEY BUILD ONLY WHAT DOD ASKS THEM TO BUILD. THEY ONLY INVEST IN NEW EQUIPMENT AND SKILLS WHEN DOD CREATES A NEW PROGRAM. THEY ARE ACCUSTOMED TO COST-PLUS CONTRACTS, GUARANTEED PROFITS, AND A BOTTOM-LINE MENTALITY WHICH IS NOT NECESSARILY CONDUCIVE TO RE-TOOLING WHILE TRYING TO ENTER COMPETITIVE, COMMERCIAL MARKETS.

TO OVERCOME THESE OBSTACLES, THE FEDERAL GOVERNMENT MUST RECOGNIZE ITS RESPONSIBILITY TO CREATE NEW INCENTIVES TO MOVE OUR ECONOMY AWAY FROM ITS DEPENDENCE ON DEFENSE MANUFACTURING, AND MORE IMPORTANTLY, IT SHOULD RECOGNIZE THE ROLE IT MUST PLAY IN HELPING THE MEN AND WOMEN WHO WORK FOR THESE COMPANIES. WE NEED SWIFT ACTION IN THE SHORT-TERM, AND STRONG PLANNING FOR THE LONG-TERM.

CONGRESS IS TRYING TO PROVIDE SOME SHORT-TERM AID IN THIS YEAR'S DEFENSE BILL, BUT WE MUST STRIVE TO PROVIDE MORE RESOURCES FOR THIS DAUNTING TASK.

TODAY, THIS COMMISSION HAS HEARD FROM MANY PEOPLE WHO ARE BEGINNING TO TACKLE THE CHALLENGE OF CREATING A PEACE TIME ECONOMY. I HOPE THE TESTIMONY OF THESE LOCAL AND STATE OFFICIALS ON THE FRONT LINE IS TAKEN INTO ACCOUNT WHEN THE COMMISSION REPORTS TO THE SECRETARY OF DEFENSE, AND THAT THE STORIES OF LAY-OFFS, LOSS OF HEALTH INSURANCE AND HOUSING ARE REMEMBERED.

WHILE THE GOVERNMENT HAS AN IMPORTANT ROLE TO PLAY IN HELPING DEFENSE CONTRACTORS TO DIVERSIFY, IT IS EQUALLY IMPORTANT THAT DEFENSE CONTRACTORS GET INVOLVED AND COMMIT THEIR OWN RESOURCES TO THIS TASK. THEY SHOULD ALSO REMEMBER THE IMPACT THAT THEIR BUSINESS DECISIONS HAVE ON THE LIVES OF THEIR WORKERS.

MEMBERS OF THE COMMISSION, I THANK YOU FOR THE OPPORTUNITY TO SUBMIT THIS TESTIMONY AND I LOOK FORWARD TO TESTIFYING IN GREATER DEPTH AT YOUR WASHINGTON, D.C. HEARING. THANK YOU.

(26)

STATE OF CONNECTICUT
SENATE
STATE CAPITOL
HARTFORD, CONN. 06106

SENATOR JOHN B. LARSON
THIRD DISTRICT

ROOM 3300
LEGISLATIVE OFFICE BLDG.
HARTFORD, CONNECTICUT 06106

PRESIDENT PRO TEMPORE

Statement of Melodie Peters
For
Senator John B. Larson
President Pro Tempore
Connecticut State Senate

Before the Defense Conversion Commission

September 17, 1992
Groton, Connecticut

My name is Melodie Peters and I am currently President of the Thames Labor Coalition, CSFT/AFT and the New London Central Labor Council, AFL-CIO. I am here today on behalf of Senate President John B. Larson who had originally hoped to testify at this important hearing. He has asked me, however, to share some of the problems we have encountered and how we have attempted to address defense cutbacks in our state.

BACKGROUND:

First, I would like to thank you for this opportunity to share information on our experiences and the effects on our economy in Connecticut as a result of reduced defense spending. For some years we have known that manufacturers in our state have been experiencing special problems.

We house some of the most important corporations in the world including Sikorksy, Pratt & Whitney, Textron Lycoming and Electric Boat-- all of which have been critical to our nation's defense. However, these companies will no longer be able to rely specifically on defense-related contracts and our economy stands to suffer as a result of this reality.

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Since the mid-eighties, we have been losing jobs due to lower costs for labor and energy in the sunbelt, and decreases in defense spending. Connecticut's public officials, as a result, have been working for several years to thwart the impact of proposed defense cuts on our state.

1990 CONFERENCE:

In 1990, Senator Larson and Congressman Sam Gejdenson co-sponsored a Connecticut Conference on Economic Diversification to explore what was being done, what needed to be undertaken and what new methods for diversification might prove successful in our state.

Over 150 persons, primarily in the manufacturing arena, attended this conference with one outgrowth being the enactment of H.B. 6391 which created a funding mechanism to help defense contractors diversify their businesses. This was done by increasing the bond authorization to the Manufacturing Assistance Program by $10 million dollars and dedicating these dollars to both defense and non-defense diversification projects hurt by defense cuts.

GLOBAL OVERVIEW:

Connecticut, regrettably, has been one of the most defense dependent states in the nation. According to testimony provided by Congresswoman Rosa DeLauro, in 1990 Connecticut was awarded defense contracts worth over $4 billion representing contracts with over 700 Connecticut companies. These companies employing 134,000 workers represent a full 8% of our total workforce.

Also ,as Congressman Gejdenson noted just this past week, Connecticut will be the hardest hit -- standing to lose 2.3% of the state's jobs between 1991 and 1997 as a result of military retrenchment by the Defense Department.

As a representative of organized labor, I am acutely aware of the ripple effect that cutbacks can have, not just on defense workers but on support businesses-- right down to the local restaurant and the dry cleaners- and I urge you to consider this in your deliberations.

EAST HARTFORD CONFERENCE (1992):

Senator Larson, who has been extremely concerned with diversification for some time, convened a series of hearings in February of this year to address issues specifically confronting East Hartford businesses and workers affected by the proposed reduction of aircraft-related jobs over the next few years.

These hearings were scheduled in response to a January 21st announcement by United Technologies which detailed a massive reorganization program that substantiated many of our deepest

fears. UTC called for the cutting of 13,900 jobs worldwide with 6,412 being lost in Connecticut (13.5% of UTC's workforce in the state). They announced intentions to close or consolidate about 100 facilities worldwide thus reducing manufacturing space by 16%.

The announcement was devastating to East Hartford where Pratt & Whitney has been the backbone of that community's economy. At these hearings representatives from Pratt & Whitney, local labor unions, rank and file workers, business owners, local chamber representatives, government officials, etc. were invited to testify regarding their assessments of the impact on Connecticut by 1995.

RECOMMENDATIONS:

There was consensus at these hearings that economic conversion was clearly the hope for the future. Senator Larson was recognized for his efforts in convening a task force to study the use of advanced gas turbines, based on jet engine technology, for generating electricity. Andrew Romegialli, Directing Labor Representative for District 91 of the International Association of Machinists testified that he was concerned with maintaining jobs in Connecticut and stressed that Connecticut incentives to business must be tied to maintaining jobs.

Since your focus is federal in nature, I urge you to balance the needs of our region in your public policy deliberations particularly since we have been so hard hit and are so acutely defense dependent. It is not sound public policy to shift the recession from one region to another. We are global enough in our own perspective to recognize that state and federal policy cannot be achieved on a piecemeal basis.

We need retraining programs and targeted assistance for displaced workers, we need to promote research and development for future jobs expansion, we need to provide tax advantages and incentives for companies to diversity so that they can compete in the civilian sector, and we must continue to be cognizant of the needs of auxiliary small businesses.

WHAT OUR STATE HAS DONE:

Finally, Senator Larson has asked me to share some of the highlights of our 1992 economic recovery package which was initiated by the Connecticut General Assembly.

Our legislature:

1. adopted legislation to redefine manufacturing for the purpose of tax relief including business tax credits for the purchase of various types of equipment and components.

2. included initiatives on international trade assistance

including the establishment of a trade show assistance fund to stimulate exports.

3. made major improvements in our efforts to promote tourism.

4. included a partial rebate for real property taxes for manufacturers located in distressed municipalities.

5. provided a $110 million dollars in loan guarantees for the Connecticut Works Jobs Fund . In addition, this act expands the range of businesses eligible for defense diversification funds under the Manufacturing Assistance Act. Any business that will create jobs for unemployed defense contractors qualifies for the fund. In addition, an eligible project can involve production or the provision of business services.

As you can see our state has been actively involved in responding to the circumstances we currently face. I hope this information will be useful to you and I thank you again for the opportunity to appear before you.

Written testimony of Connecticut Labor Commissioner Ronald F. Petronella for public hearings of the Defense Conversion Commission, City Municipal Building Auditorium, 295 Meridian St., Groton, 1-5 p.m., Sept. 17, 1992.

Good afternoon. I'm Connecticut Labor Commissioner Ronald Petronella.

Welcome to the "arsenal of democracy," one of our state's many nicknames. We built ships for the Revolutionary War, revolvers and rifles -- and brass uniform buttons -- for the Civil War, munitions and gas masks for the First World War, and ordnance for the Second World War, Korea, and Vietnam. Workers right here in Groton helped win the Cold War with submarines they built, and the nation owes them its thanks.

Some of Connecticut's largest plants and leading employers produce defense items -- attack submarines, helicopters, jet fighter engines. We are proud of them and of their work, but we know the needs of the nation are changing.

Our unemployment figures are reflecting that. The changes are being documented for you in separate written material compiled by our Research and Information Unit.

I will discuss four topics:

1. The ramifications of defense cutbacks in Connecticut.

2. How we hope to diversify our industrial base and improve our economic climate.

3. Our training -- and retraining -- programs and needs, and

4. Our involvement with the Transition Assistance Program -- known as TAP -- for those leaving the armed services.

Ramifications of Defense Cutbacks on Connecticut

First, the effects of defense cutbacks on Connecticut. A book produced by the Congressional Office of Technology Assessment this year, "After the Cold War: Living with Lower Defense Spending," got it right. It said, "Adjustment to lower defense spending is not painless." And the current U.S. economy offers few well-paid jobs to take the place of defense manufacturing jobs.

That book points out that approximately one-half of defense-related jobs within the country are in eight states. And certain local areas in those states are exceptionally dependent on defense employment. The book notes, for example, that up to one in five workers in the Norwich-New London labor market, where we are right now, holds a defense-related job.

And many more are in service, transportation, and commercial jobs that serve the everyday needs of these workers. This is a defense-dependent community, and cuts in defense spending will hurt. A lot.

Diversification

How to lessen the pain? Obviously by diversifying our industrial base. Let me tell you about a preliminary report to our state legislature and Governor Lowell P. Weicker, Jr., from the Commission on Business Opportunity, Defense Diversification and Industrial Policy, of which I am a member.

The commission has the task of creating a plan for economic renewal for Connecticut. Of special interest is one goal for the new economy: A world-class, globally competitive education and training system,

The emphasis is on education. Our short-term action regarding training recommendations is to charge companies for modestly priced programs that build on existing customized training offered by state

agencies and private providers. We must produce a literate, highly skilled, entry-level worker, continually train existing workers and upgrade their skills, and generate research and development that lead to the next generation of products and methods. As the nation is beginning to realize, the choice is between high skills or low wages.

The labor force of the future increasingly will be minority, female, and Spanish-speaking. So the traditional jobs of one sector of the population will be filled by new faces. In addition, disadvantaged students must receive help -- remedial and financial -- to further their educations.

Another indirect way to bolster employers' and citizens' wallets would be to make high-quality health care available at lower cost. That, too, is on our wish list.

Another emphasis of the commission is on user-friendly government. We want to put planning and other services close to the customer. This would include a regional approach to delivery of economic development resources and services, with attention to coordination among levels of government. We want an efficient government that is responsive to the needs of the citizens of the state, including the corporate community, and a government that promotes entrepreneurial initiatives. To serve individuals seeking jobs, training, unemployment benefits or other services, we are cross-training staff and initiating "one-stop shopping" at our 18 Job Centers.

The economy of the next century will depend on a strong and diverse base, emphasizing industries that generate wealth. Companies can do that by adding value during the process of creating products. Our state government can contribute by supporting innovation, paying attention to creating and retaining business, helping companies grow and recruiting businesses from out of state.

And we can do it by attracting wealth from outside the state through exporting products and services, encouraging use of our private higher

education facilities, or through selling insurance -- another of Connecticut's major industries. To do this, we must energize both private and public resources.

And we must have a sound system of finance and investment that leverages public and private funds to provide companies with broad access to credit and capital.

To improve the state's economy, we need a modern infrastructure to support the enterprises of the next century, including energy, transportation, telecommunications, and housing. The addition of jobs in these fields would contribute to improving the state's job picture.

In short, the size and content of the slices that make up our job-sector pie need to change.

Training

From the $150 million discretionary national reserve fund for workers laid off because of defense cutbacks, Connecticut has requested and received assistance for retraining two groups of workers:

First, $1.5 million -- shared with Rhode Island -- to assist workers laid off by the Electric Boat Division of General Dynamics here in Groton. These layoffs were in connection with reductions in the Seawolf submarine program.

Second, $400,000 for those laid off by United Nuclear -- or UNC, Incorporated, based in nearby Montville -- manufacturer of Navy nuclear propulsion units.

We see ourselves submitting additional applications on behalf of other defense-related workers if more layoffs occur.

Also to assist laid-off workers, many of whom have never held another job, our department set up a special out-placement office at

Electric Boat's transition center. There we certified about 800 people as dislocated workers, offered microfiche job listings and other job counseling.

(To serve large numbers of people quickly, our Unemployment Insurance staff also set up a special site at the Avery Point campus of the University of Connecticut specifically to register workers laid off by Electric Boat. Nearly 200 former EB employees took advantage of the convenience within a few days. Without the special effort, serving that number could have disrupted a local office. This was solely to assist with registering for Unemployment Insurance. I mention it here only because that registration often is the first chance laid-off workers have to learn about services available from the Department of Labor.)

While it is hard to know how many of those who lose jobs leave Connecticut to find new employment, we are fearful of a flight of skills from our state if no replacement jobs are created.

So far, we have been able to use only state -- not federal --money to re-educate current employees of companies converting from defense to commercial products.

One recent state-assisted customized job-training program might interest you. A North Stonington company, Analysis and Technology, Inc., which since 1969 has provided analytical and technical services in support of submarine and anti-submarine warfare, plans to diversify into commercial markets.

Hoping not only to retain its 750 employees but to hire 75 more, the company launched a diversification program by providing briefings to 37 top-level managers totaling thousands of hours. The training identified requirements for success in the commercial market and approaches to developing commercial products and services. The Labor Department used state funds to reimburse the company for part of the cost of the training. Also participating in the program were the state Department of Economic Development and the University of Connecticut.

Federal funds for customized training of employed individuals -- in danger of losing their jobs -- would help us serve many additional companies.

Transition Assistance Program (TAP)

We have found that early intervention definitely is beneficial to those leaving military service. Most have never held a full-time job in the private sector and probably need extra help in locating new employment. So the 90 days' notice they receive before separation from service is especially helpful.

We are working with the Department of Defense -- specifically the Naval Submarine Base at New London -- and the Department of Veterans Affairs to assist service people and their spouses in transition to the private sector. You probably are familiar with the program, known as the Transition Assistance Program or TAP. The goal is to provide veterans with skills that will decrease the time of unemployment and provide information to make a suitable educational or career choice. We want to prevent long-term unemployment.

Because many of these people will be leaving Connecticut, we tell them about the interstate job bank system and veterans services offered nationwide. Our veterans employment representatives make clear that giving veterans preference in job placement is a national policy.

From January to August of this year, 224 soon-to-be-separated service people attended three-day workshops. Discussions helped them prepare for job interviews, write résumés and cover letters, analyze their skills and set goals. They also learned how to apply for federal jobs and to research private companies -- including networking -- plan personal budgets, deal with stress, learn what state employment offices provide across the country, and discuss what employers seek when hiring applicants.

This program soon will be extended to provide information on benefits available to disabled veterans.

As an off-shoot of this program, Connecticut veterans representatives now offer workshops at various locations in Eastern Connecticut to all veterans registered with Job Service.

In Conclusion

In conclusion, new helicopter or tank engine contracts -- announced with fanfare -- are only temporary reprieves. We must replace defense-related jobs with non-defense employment paying similar wages if the state's economy is to thrive. Loss of much of our defense industry will have many effects on the economy: reducing taxes that pay for services, crimping lifestyles and purchasing power, rippling out to harm subcontractors, restaurants -- and even the hot dog vendors outside defense plants.

Connecticut has the brainpower, technologies, and range of business and industry needed to secure our economic future. The task facing government and corporate leaders is to marshal these resources in the most effective way.

With the help of the federal government -- through retraining and retooling -- we can improve the future of those adversely affected.

Thank you for stopping here in Connecticut on your travels across the country. May you find the answers we all need to help the nation reduce the negative impacts of defense cutbacks.

#

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September 14, [illegible]

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TO: Colonel Steve Jones FAX: 202-653-1[illegible]
FROM: Domenick Bertelli

Dear Colonel Jones,

My Testimony on September 17 will present a case for a more active government role in "conversion" in the Post-Cold War era. In particular I will stress six points:

1. Our defense spending has not changed substantially despite the substantial change in the international security environment.

2. Assuming we do make reasonable cuts, many communities throughout the country will suffer short-term hardship, pressing state services, and many employees could face long-term unemployment.

3. Federal programs can work to proactively address coming cuts, ease hardship, and redeploy a workforce in which the country has made a large investment.

4. The Bush Administration has persistently worked to block and undermine conversion initiatives.

5. Foreign arms sales are a bad, short-sighted alternative to economic conversion.

6. A modestly-funded civilian technology policy accompanied by some short-term public works projects could have a major impact in easing the current transition, pulling the U.S. out of the current recession, and setting the stage for long-term growth.

As for a brief bio I would suggest the following (please note the correct spelling of my name):

Domenick Bertelli was a co-author with Betty Lall and John Tepper Marlin of Building a Peace Economy: Opportunities and Problems of Post Cold War Defense Cuts (Westview, 1992). He holds a degree in Government, cum laude, from Harvard College and is currently Deputy Director of the Conversion Information Center of the Council on Economic Priorities in New York City.

CIC would like to submit some additional written materials at the end of this month, which you should receive before the October 1 deadline. I apologize for the delay in getting back to you and hope I haven't caused any inconvenience.

Thank you for the opportunity to testify. Best regards.

Sincerely,

Domenick Bertelli

Domenick Bertelli
Deputy Director, CIC

Transition and Conversion after the Cold War

Submitted to

The Defense Conversion Commission
David J. Berteau, Chairman

by

Domenick M. Bertelli
Deputy Director
Conversion Information Center

Council on Economic Priorities
30 Irving Place, 9th floor
New York, NY 10003

September 17, 1992

Transition and Conversion After the Cold War

by Domenick Bertelli[1]

ABSTRACT: This testimony (I) reviews world military spending, noting a substantial rise in the U.S. share, (II) assesses the impact of probable cuts that should be made, (III) reviews the response of contractors to the cuts so far (IV) examines community responses and strategies, (V) evaluates the conversion-related policies of the Bush Administration, (VI) and offers some proposals for facilitating the transition.

I. RECENT U.S. MILITARY SPENDING IN A GLOBAL PERSPECTIVE

While the Berlin wall has fallen and the Soviet Union has dissolved, U.S. defense spending has remained relatively stable near peak Cold War Levels. While the Pentagon continues to point to decreasing GDP shares (see chart 1.) and budget shares versus "entitlements" to defend current requests, it is clear that our military spending is out of step with the global security environment and current global spending trends.[2]

The DoD is looking backward to the Reagan era as if military-spending levels in the 1980s were normal. In fact the Reagan-era buildup (five years above $300 billion in 1991 dollars) was not normal; it was the longest sustained period of high U.S. military spending in the century.[3] Perhaps this was the price of winning the Cold War[4], but now that the Cold War is over, we have no legitimate reason for continued high spending.

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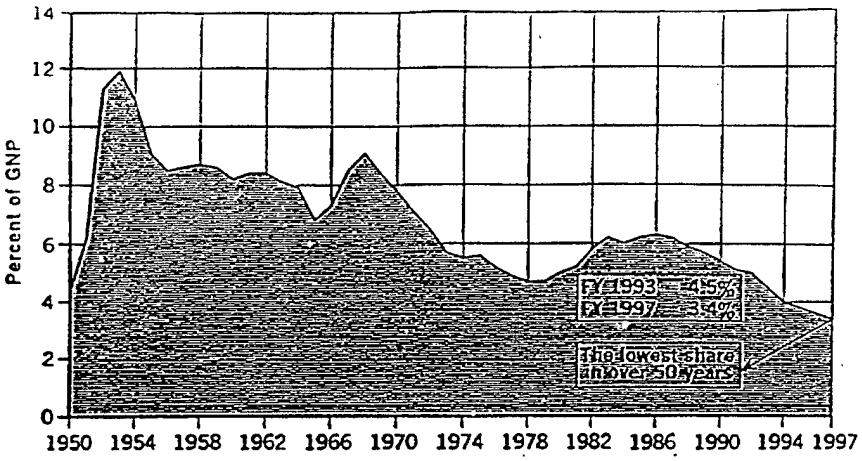
1. . This testimony is based on a paper presented by John Tepper Marlin and Jurgen Brauer, "Military Spending and Conversion: The U.S. Debate and Record as of 1992" to the 42nd (Quinquennial) Pugwash Conference, 11-17 September 1992, Berlin, Germany. Variations from that paper are the sole responsibility of Domenick Bertelli.

2. In his 1992 Annual Report, Defense Secretary Dick Cheney includes a chart showing that "As a share of America's GNP, DoD outlays are expected to fall to 3.4 percent in FY 1997, well below any time since before World War II." Next to this low point on the chart is a Surgeon-General-type warning "The lowest share in over 50 years." The chart's warning label has been in all recent National Defense Estimates (FY 1990, March 1989, p. 108; FY 1991, March 1991, p. 112; and FY 1992, March 1991, p. 62) as well as the DoD Annual Report (FY 1992, p. 22).

3. World War II exceeded that figure for only four years and the Korean and Vietnam wars for only two years each.

4. Too often such accounts seem to ironically forget that the failure of communism and centralized planning had at least as much to do with the Soviet Union's demise as the cost of trying to keep up with U.S.

Chart 1. THE PENTAGON VIEW: U.S. DEFENSE OUTLAYS/GNP
FY 1950-1991 Actual, FY 1991-1997 Estimates



Source: U.S. Department of Defense, Annual Report to the President and the Congress, February 1992.

For comparison, U.S. military spending is twice that of European NATO countries and 8 to 10 times that of Japan. The U.S. defense budget this year will be roughly equivalent to the entire GNP of India.[5] In the 1970s, world military spending as a percentage of world GNP was higher than that ratio in the United States. In the 1980s the U.S. military budget rose 50 percent (from roughly $200 billion to $300 billion per year in 1990 dollars), absorbing a significantly higher portion of GNP than the world average. During that time the U.S. share of world military spending rose from 22 percent to 28 percent.[6] (See Chart 2.)

Making a few modest assumptions about 1) the decline in defense spending that will probably continue to accompany the economic restructuring of the former Warsaw Pact countries[7], and 2) military spending for the rest of the world based on current trends,[8] we

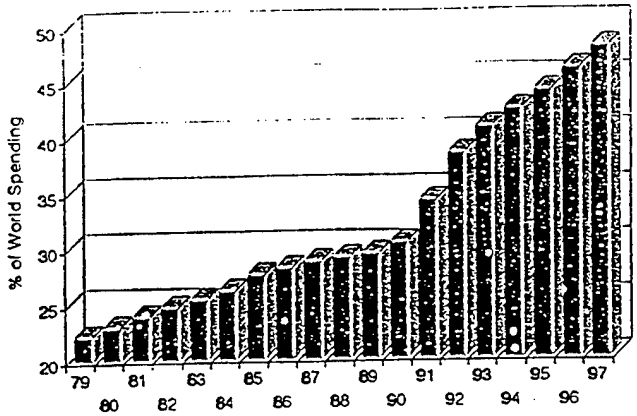
5. See U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers 1990 (Washington DC: U.S Government Printing Office, November 1991).

6. Information for 1979-1989 is taken directly from the annual report of the U.S. Arms Control and Disarmament Agency (ACDA), which has a series going back to 1961. Actual 1979-1989 data for all regions and countries are from ACDA, World Military Expenditures and Arms Transfers, 1990 (WMEAT, pronounced "We-Meet"), Table 1, (1) columns for Military Expenditures, Constant 1989 Dollars; and GNP, Constant 1989 dollars and (2) 1979-89 blocks for World, Europe (All), Warsaw Pact, Middle East, United States and Soviet Union. The data were in constant 1989 dollars and were inflated to 1990 dollars by a factor of 1.054, the U.S. inflation rate for all items in 1990 according to the Bureau of Labor Statistics (see World Almanac 1992, p. 151).

7. The projections for Russia and the other Warsaw Pact countries for 1990-1997 were made using the following assumptions: (1) The former Soviet Union (FSU) continues in a free fall through 1993 both in its economy and in the percentage of its resources devoted to the military. We also assume that no inter-republican skirmishes escalate sufficiently to reverse this decline in military spending. Russian specialists are projecting a decline in military spending as a percentage of Russia's GNP of one percentage point per year until it reaches 6 percent. This estimate is consistent with the report of a drop in the Soviet armed forces from 4.5 million to 4 million between 1988 and 1991 and a projection that the Russian-CIS army will fall to 1.5 million by 1995; see Edward L. Warner III, The RAND Corporation, "The Decline of the Soviet Military: Downsizing, Fragmentation, and Possible Disintegration," in Dick Clark, ed., United States-Soviet Relations: Building a Congressional Cadre (Queenstown,

projected the U.S. share of world military spending for the 90s under the proposal submitted by President Bush in 1992.[9] The result shows the U.S. share rocketing to almost 45 percent of world spending by 1997.

Chart 2. A WORLD VIEW: U.S. SHARE OF WORLD MILITARY SPENDING
1979-1989 Actual, 1990-1997 Estimates



Source: Conversion Information Center, Council on Economic Priorities (CIC-CEP); 1979-1989 data derived from the Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, 1991. Subsequent years are projected by CIC-CEP (see text for assumptions).

MD: The Aspen Institute, 1992). The former Soviet Union's GNP is believed to have dropped 10 percent in 1990 and 15 percent in 1991; after another 20 percent drop in 1992 and 10 percent in 1993, its real GNP is expected to start growing by 4 percent a year through 1997. These estimates are based on public statements of IMF-IBRD officials such as Michel Camdessus and Lawrence Summers as well as interviews in May 1992 with Russian economist Alexei Izyumov, who had canvassed other Russian researchers on their projections. (2) Other FSU republics and other Warsaw Pact nations are assumed to follow the Russian model, but the percentages of their GNPs devoted to the military drop to 4 percent for the non-FSU Warsaw Pact nations.

8. For Western Europe (Europe outside the Warsaw Pact) we project a decline of 5 percent a year in military spending for 1990-1997. Germans are reported as wondering whether or not the country needs to maintain an army at all, now that the threat of a Warsaw Pact invasion has disappeared. For the Middle East and for Asia/Africa/Latin America, the drop is projected to be 5 percent a year. The European, Middle East and Asia/Africa/Latin America declines in military spending are based on the shortage of funds in most of these countries, coupled with the end of the Cold War, which had been a driving force behind militarization of LDCs (admittedly a few LDCs are increasing their arms purchases and others are manufacturing at home what they used to import). The former Soviet Bloc was a major merchant of arms; in the early 1990s it lost some its ability to produce and sell these arms. Prospective arms purchasers are also constrained by their ability to pay for fueling and maintenance of the weapons. Also, some industrialized countries and several multinational agencies have raised questions about the desirability of providing credits and aid to LDCs that are major arms buyers.

9. We use the 1992 Congressional Budget Office projections of the "slow downward glide" of the Bush Administration's defense proposals. For 1990-1997 U.S. defense-budget data we used three 1992 publications of the Congressional Budget Office (CBO): (a) The actual 1990 and 1991 figures came from CBO's The Economic and Budget Outlook: Fiscal Years 1993-1997 (January 1992), Table D-8, p. 120, and information on p. 50; CBO notes on p. 53 the option of reducing the defense budget to $250 billion (in current dollars) by 1997. (b) In its CBO Study: The Economic Effects of Reduced Defense Spending (February 1992), CBO shows a "larger reduction" path down to $225 billion (in 1992 dollars) by 1997. (c) For 1993-1997 projections of U.S. defense spending and the "050" line for defense spending in the U.S. budget proposals, we used Table 4-2, p. 64, and Table 4-6, p. 75, of CBO, An Analysis of the President's Budgetary Proposals for Fiscal Year 1993 (March 1992), along with the Consumer Price Index deflators in Table 2-2, p. 20, to deflate the nominal-dollar out-year budget projections to 1990 dollars.

The continuing military drain on our budget and economy is particularly scandalous considering the large backlog of unmet domestic needs, especially in U.S. cities. The administration-inspired firewall between defense, international and domestic spending serves to protect the military budget and is a blow to post Cold War conversion and the effort to address the problems facing our country and society.[10]

The status of the U.S. military budget as of September 17, 1992 is shown in Table 1. It appears the FY 1993 spending level will not be reduced more than $15 billion from that FY 1992. The amount of money going for the B-2, SDI, and the Seawolf alone could fund a multi-billion-dollar conversion program. The House defense bill includes $1 billion for conversion (but under DoD control); the bill reported out of the Senate Armed Services Committee includes $1.3 billion for conversion.

Table 1. MILITARY JOBS PROGRAM, FY 1993
Questionable Military Programs Still in the U.S. Budget

- **Seawolf** attack submarine, designed strictly to fight an undersea war against the Soviets in the North Atlantic, it is not cost-effective against today's foreseeable enemies. The cost of Seawolf No. 2 is put at $2 billion. Its lifetime cost will be much higher, because of its heavy maintenance and operating costs. Both Bush and Clinton favor continuing it, to maintain the jobs. Recommendation: Instead, provide Federal conversion funds to strengthen the local economy.
- **B-2** strategic bomber was designed to evade Soviet defenses is obsolete with USSR's end. It is not even clear that the plane is all that stealthy. 15 are on order and 5 more are proposed for an additional cost of $2.6+ billion. Recommendation: Cancel the 10 in production; don't buy 5 more; use cancellation dollars for conversion.
- **Amphibious force:** Why maintain more than a token amphibious force when Iraq proved how cheap and easy it is to defend against it with mines and guided munitions? Cut.
- **SDI:** With little evidence that any progress has been made on the immense technological difficulties of destroying warheads re-entering the atmosphere, the program ignores other more plausible means of nuclear delivery. Recommendation: Continue research on missile interceptors at the pre-Reagan level of $1 billion (vs. $6 billion proposed by Bush). Reject proposals to start deployment.
- **Nuclear testing:** Indefensible as other countries have ended nuclear tests. Recommendation: Save the $8 billion.

As of the House vote on June 5, unneeded weapons were still in the FY 1993 budget. Source: Center for Defense Information, The Defense Monitor and interviews with retired Admirals Eugene Carroll and Stanley Fine. Also "The War Democrats, 1992 Style," Editorial, The New York Times, May 13, 1992.

Actual U.S. spending will almost certainly be far below the Bush proposal. But this exercise shows that the Administration and Pentagon have not seriously re-examined U.S. defense spending. Part of this reflects political deadlock generated by the jobs tied to defense production. Especially in an election year, President Bush is like the Sorcerers Apprentice -- unable or unwilling to stop the production of weapons we no longer need.

10. The implications of not eliminating the budget firewall meant that, for example, a bill introduced by Rep. John Conyers Bill allocating $6.6 billion to conversion could not be considered.

II. THE IMPACT OF FUTURE CUTS

Regardless of who wins the November Presidential elections, deeper cuts are in the offing. Many proposals being discussed in academia and on Capitol Hill call for reducing military spending by as much as half by the end of the decade or sooner.

In 1989, long before the extent of the coming breakup of the Soviet empire was apparent, William Kaufmann of the Brookings Institution proposed reducing defense spending by almost half, to $160 billion a year (in 1990 dollars), by the end of the decade; if the portion spent on procurement remained constant at about 27 percent, it would mean spending on procurement would drop from $81 billion to $43 billion.

If every $1 billion (in 1990 dollars) in defense procurement generates 25,000 local jobs (including indirect/induced jobs) a procurement cut of $140 billion could mean -- even if attrition and reduced recruiting is taken into account -- layoff of 1 million defense workers during the 1990s, i.e., an average of 100,000 per year. The reduced need for uniformed personnel in Europe could also eventually mean the mustering out of an additional 50,000 personnel per year.

Table 2. U.S. MILITARY BUDGET STATUS
Appropriations, billions of current dollars

FY 1992 Actual	$291
FY 1993 (amount cut from FY 1992)	
Bush-Cheney proposal (-$10 billion)	$281
House budget (-$21 billion), passed June 5	$270
Senate Armed Services budget (-$17 billion)	$274
FY 1997 Proposed (amount cut from FY 1992)	
Bush (-$50 billion)	$241
Senate: Nunn (-$80-85 billion cut)	$206+
House: Aspin (-$91 billion)	$200
Brookings/CDI et al. (-$111 billion)	$180+

Source: Newspaper reports as of September 17, 1992. The defense authorization and appropriation bills have cleared the House and the Armed Services Committee of the Senate. When the Senate has voted, a conference committee of the two houses reconciles the differences.

An Office of Technology Assessment study released in 1992 reported that 500,000 jobs have already been lost due to cuts in defense from the high-water mark in the 1980s.[11] The study also holds that 1.1 million jobs in the defense industry will be lost by 1995, a potential drop of 19 percent. According to one industry estimate, about one-third of the second and third-tier companies serving the defense/aerospace industry in 1990 have either disappeared or

11. U.S. Congress, OFfice of Technology Assessment, After the Cold War: Living With Lower Defense Spending, OTA-ITE-524 (Washington, DC: U.S. Government Printing Office, February 1992), p. 61. Defense News responded to the study with the headline "Ill-Advised Rush to Cut," March 2, 1992, p. 18.

will in the near future.[12] Perhaps as many as 10 million jobs depend directly or indirectly on DoD dollars. The macroeconomic effect of these job losses is neither huge nor obvious, but in those communities where defense spending is greatest - in the gun-belt states - these numbers portend a deluge of pinkslips and immediate economic decline. In Los Angeles County alone, the defense cuts could result in the loss of as many as 420,000 jobs by 1995.[13]

Impact on States and Localities

When Defense Secretary Dick Cheney began to announce where cuts would be occurring, he obtained the reaction that his predecessor predicted -- a clamor of protest from Members of Congress from affected areas.

It is difficult for those outside the pentagon and industry to predict where the impact of cuts will be felt. One problem is that defense-spending data from DoD identify only the prime contractor and production location. They neglect subcontractors, even though secondary companies receive at about half of prime-contract dollars. For example at the end of the 1980s, the Lima, OH plant that manufactured the M-1 Abrams tank had 3,500 workers working under a subcontract to General Dynamics, but also put out subcontracts that hired another 13,000 people at other companies.

A program in the late 70s to follow subcontracting systematically was abandoned in 1979 for political reasons. Reportedly, it showed that subcontracts were even more concentrated in gun-belt states than prime contracts, which provided political ammunition for communities and states which suffered substantial net drains from Pentagon spending. The Pentagon surely tracks subcontracting quite carefully for purposes of sustaining the industrial base. There is no persuasive reason this information should not be systematically gathered and made publicly available.

Regardless, because defense spending is quite concentrated -- a handful of states receive over half of the appropriations -- the vulnerable regions are not difficult to identify.

Base Closures

Over 80 bases were affected by the Base Closure and Realignments approved over the last three years. Base closures have serious economic impacts on communities, but many communities find that in the long run that bases can be re-used to generate more employment than they originally provided. The Office of Economic Adjustment has an impressive record of facilitating successful conversion of bases. According to OEA the 93,000 jobs lost nationally from military-base closures and realignments between 1961 and 1986 were replaced by nearly 140,000 new civilian jobs.[14] Roughly speaking, three new jobs replaced every two lost base jobs. Facilities were converted to such uses as vocational schools, machine shops and commercial airports.

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12. . William B. Scott, and Carole A. Shifrin, "Recession Taking Toll on Sub-Tier Companies," Aviation Week & Space Technology, September 7 1992, p. 91.

13. Ralph Vartabedian, "Aerospace Cuts to Devastate Area, County Study Says," Los Angeles Time, March 17, 1992, p. 1.

14. Office of Economic Adjustment, Office of the Assistant Secretary for Force Management and Personnel, Twenty-five Years of Civilian Reuse: Summary of Completed Military Base Economic Adjustment Projects, May 1986.

An example of recent success is Pease Air Force Base in New Hampshire. The base was named for closure in 1988 and was one of the first bases to shut down in 1990. In March 1989, the Pease AFB Redevelopment Commission was formed to create a conversion plan. The Commission set up six citizen advisory committees that worked with Bechtel corp. in developing a master plan which set aside part of the base as a wildlife refuge and designated the built infrastructure as housing for an international tradeport.[15] A state agency, the Pease Development Authority, was created to manage the transition. So far the Authority has been able to lease over 50 percent of the available square-footage to ventures supporting about 1,000 new jobs. Among the new tenants are a visa and passport-processing center run by the State Department and a commuter aircraft maintenance company. The community is still a long way from recovering the 4,000 to 5,000 jobs that were lost, but the managers of the authority maintain hat they are well ahead of their strategic plan and project that the re-use effort may reach the "break-even point" in the late 90s, more than a decade ahead of schedule.[16]

Communities reliant on military manufacturing usually face greater adjustment problems than those reliant on bases. Defense-contractor jobs generally pay more, the multipliers in terms of subcontracting jobs and supporting jobs are usually greater, and the workers are more integrated into the communities than military personnel who are often transient or attached to bases. The rest of this paper will be primarily concerned with contractor and community responses to procurement cuts.

III. CONTRACTOR RESPONSES

Procurement cuts generate some of the fiercest lobbying and pork-barrel deal-cutting of any Congressional action. Prime contractors on large projects often manage to sub-contract small pieces out to hundreds of Congressional districts, guaranteeing widely targeted constituent pressure to maintain programs and jobs. Affected contractors usually launch massive publicity campaigns to put heat on Congress and, in one case, even resorted to parking a copy of the endangered system in front of the Capitol to gain Congressional and Media attention.[17]

Unfortunately, defense contractors are much better at lobbying to prevent cuts than planning for them or coping with them in positive ways. When programs become imperiled or near the end of their production runs, contractors rarely consider new products outside the defense realm. Proactive non-defense diversification ideas emanating from the workshop are almost always rotely rejected. In defense-boom times, follow-ons are usually found to keep the companies going. In the current climate, there is not enough business to go around, so almost all of the top contractors are laying workers off and closing factories.

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15. "Pease International Tradeport Update," New Hampshire Business Review (promotional publication) July, 1991.

16. CEP communication with (by phone) Sue McDonald of the Pease Development Authority, September 3, 1992. Ms. McDonald described the performance of OEA as "excellent, responsive, and helpful."

17. The program, the V-22 Osprey, was successfully revived, though after 2 crashes in 14 months and with continuing budget pressure it may be axed in the FY 1994 budget.

The imperatives large contractors follow are clearly those of Wall Street, not of communities; the burdens of adjustment are left ex post facto to those who have to start over and government agencies, which likely have to fill large roles in providing benefits and placement services to the unemployed. Counter-intuitive considering the times, many contractors are doing quite well in Wall-Street-terms. On July 16, Northrop corporation, the no. six defense contractor, reported a 71 percent increase in second quarter earnings. No. 3 contractor General Dynamics will likely show a double-digit jump in earnings over last year. Renowned investor Warren Buffett recently spurred a rush to buy GD stock by buying a 15 percent stake in the company.

The Wall Street Journal wrote that Northrop's report "kicked off what is expected to be a strong earnings period for arms makers, who generally have been benefitting from cost cutting as they await the future negative impact of Pentagon budget-slashing." The cost cutting, of course refers to laying off workers, idling factories, and "conservative financing" policies that redirect profits to shareholders instead of into new plants, equipment, and R&D. General Dynamics chairman William Anders, speaking at GD's tank plant in Lima Ohio, stressed his company's commitment to distributing excess cash to shareholders. In essence, contractors that have grown huge on well documented Pentagon largesse suddenly begin free market chants and divest themselves of federally subsidized assets so as to maximize the return to stockholders. Northrop and General Dynamics between them laid off 19,000 workers in 1991.

Not all contractors are faring well, however. McDonnell Douglas Corporation reported surprisingly low earnings in early August as cutbacks in defense (mostly involving the C-17 transport plane) combined with a slumping civilian air-craft market to depress revenues. MDC had been attempting to reduce its defense-dependency and re-establish its presence in the commercial market with two new commercial airplanes, the MD-11 long range craft and the MD-12 jumbo-jet, still in development. Increased competition from the European consortium Airbus, however, has dampened the prospects for diversification. McDonnell Douglas has laid off more that 22,000 people over the last 18 months. Leery of further cuts, the company lobbied furiously for White House permission to sell 72 F-15Es to Saudi Arabia, for which the company gained approval last week.

Despite strong profits for some, aerospace companies in general are not as strong as observers were predicting at the end of the 80s when the U.S. industry could boast a $200 billion backlog in orders. The world-wide recession contributed to hard times for the world's airlines, which have been operating at a loss since 1990 and expect to lose $2 billion in 1992.[18] 1991 saw losses of close to $4 billion and witnessed the first decline in traffic since commercial jets were introduced. A further ominous trend was suggested by United's $5 billion order for up to 100 A320 jets from Airbus Industrie. United had formerly been a reliable customer of Seattle-based Boeing.[19]

In a study of European contractors commissioned by the European Parliament, Jörg Huffschmid and Werner Voss identified 7 strategies of adjustment which fell under the broad

18. "Business this Week," The Economist, July 11, 1992, p. 71.

19. "Business this Week," The Economist, July 11, 1992, p. 71.

categories of "expansion" and "pulling back."[20] The European study noted a marked difference between the strategies of Northern European companies, which are more likely to focus on strategy 6 - diversification - and British companies, which tend to favor strategy 4 - closing up shop.

Table 3. CORPORATE STRATEGIES

Increasing Arms Exports to third Countries (1):
Concentrating on arms products that continue to enjoy market expansion (2):
Concentrating in defense sectors through mergers, acquisitions and/or sale of civilian divisions (3):
Cutting back on military production without substituting other production (4):
Selling arms companies or divisions (5):
Diversifying into civilian sectors (6):
Converting capacity from military to civilian production (7):

Our research on American-based defense contractors suggest that U.S. companies are attempting a wide variety of activities, but that the ones most frequently observed are strategies 2, 4, and 6 which might alliteratively be abbreviated as denial, ditching, and diversification. None of these strategies is particularly helpful to defense-dependent communities. Diversification at least offers the prospect of intelligent private-sector re-channeling of resources.

By assuming substantial budget cuts in the future and weighting the various strategies from a community-oriented, non-proliferation perspective, CIC derived scores for the overall adjustment strategies of the contractors (Table 4).[21] Applied to our preliminary data for U.S. companies, Grumman, Westinghouse, TRW, and Honeywell have the best records; General Dynamics, FMC, Unisys, and Northrop the worst. In common between the two surveys is the fact that the largest defense contractors generally have the worst records in terms of following positive adjustment strategies.[22] Some of these strategies are discussed in greater detail below.

20. Jorg Huffschmid and Werner Voss, "Military Procurement - The Arms Trade - Arms Conversion in the European Community: Approaches to Coordinated Regulation," Study for the Political Affairs Committee, European Parliament, October 24, 1991, p. 51 (p. 59 of EP version). We are grateful to Werner Voss for making available a copy of this paper.

21. Company strategies were broken down into seven categories following the Huffschmid-Voss model. Companies were then assigned a 1 if there was evidence of a given activity, a 2 if it was deemed a company priority, or a 0 if there was no available evidence. These ratings were multiplied by the following weights to generate scores: foreign arms sales rated -3, concentration on new defense contracts -2, acquisition of military subsidiaries -2, cutting back on production without substitute production -4, sale of arms divisions +2, diversification +4, conversion +5.

22. See Huffschmid and Voss p. 59. Using our weighting system applied to European data, British Aerospace has the worst adjustment record and Lucas Industries the best.

Table 4
DEFENSE-CONTRACTOR RESPONSES TO CUTS

Company	Rank, $ contracts	Score
Grumman Corp.	10	4
Westinghouse Electric	11	2
Honeywell Inc.	35	1
TRW Inc.	19	1
Allied Signal Inc.	29	0
Martin Marietta	8	0
Texas Instruments	21	-1
General Electric	3	-2
GM-Hughes Aircraft Co.	4	-2
Rockwell Int'l Corp.	12	-3
Lockheed Corp.	9	-4
Raytheon Co.	5	-5
Textron Inc.	20	-5
Boeing Co.	18	-6
Gencorp Inc.	34	-6
McDonnell Douglas Corp.	1	-6
Litton Inc.	13	-7
Loral	16	-9
United Technologies	7	-9
Northrop Corp.	6	-10
Unisys	15	-11
FMC	14	-12
General Dynamics	2	-13

Note: The score is derived by rating each company 0, 1 or 2 according to seven adjustment strategies, which were then weighted by desirability from the perspective of workers, communities and national security.
Source: Conversion Information Center, Council on Economic Priorities unpublished data derived from literature and periodical reviews and company interviews.

Increasing Arms Exports (1):

One of the worst but most common strategies is to increase arms exports to try to make up for cuts in domestic procurement. The U.S. government is often all to happy to assist these sales. According to Lawrence Eagleburger, then Deputy Secretary of State (now acting Secretary of State) "It is the policy of the United States that our diplomatic posts abroad should support the marketing efforts of U.S. companies in the defense trade arena as in all other spheres of commercial activity." Charles Duelfer, Director of the Center for Defense Trade in the State Department adds "The State Department can have a very key role

in helping manufacturers identify possible markets, helping them find their way around the host government, find the right people to talk to... We want to make sure that our manufacturers can compete."[23]

A public uproar was caused last year when the Defense Department went so far as to provide equipment and staff free of charge (covering even insurance costs) for U.S. aerospace companies exhibiting their wares at foreign trade shows. The practice was eventually halted. Fortunately, the 1991 attempt to turn the Ex-Im Bank to supporting foreign arms sales failed. But in 1991 the United States made grants of $1.5 billion for foreign military training and weapons and licensed sale of $24.7 billion in weapons to countries headed by dictators. Saudi Arabia alone received $16.4 billion in such licenses. Altogether in 1991 the United States Government licensed export of $63 billion of weapons to 142 countries, up from $20 billion in 1990. During the 1980s, more than half of U.S. weapons exports went to arm authoritarian governments.[24]

In the most cynical of lights, such transactions make good business sense. Not only do they keep U.S. production lines warm for a few years, but they induce a need to continue modernization so U.S. forces and allies (e.g. Israel) can stay a generation ahead of our customers in the event of unforseen circumstances. As Secretary Cheney admits: "We can't guarantee a weapon won't end up in the wrong hands."

The companies with the largest volume of exports tend to be those with the largest domestic sales. McDonnell Douglas convinced a frantic President Bush to approve the F-15 sale which will preserve production jobs in the crucial swing-state of Missouri. General Dynamics with over a thousand F-16s already delivered overseas, recently received approval to sell at least 120 more "Falcons" to Taiwan, preserving jobs in the crucial swing-state of Texas. (China, one of the fastest growing exporters and a key node of advanced technology dissemination, will not soon forget this last transaction and matched it the following weak by agreeing to build a nuclear power plant in Iran). General Dynamics also has a large contract to sell M-1 tanks to Saudi Arabia.

Concentrating on arms products that continue to enjoy market expansion (2):

Despite the general trend of cutting back on procurement, some programs like the F-22 Advanced Tactical Fighter and the Army's Light Helicopter are in early phases of development. Almost every company exhibited the strategy of pursuing new programs. The problem is that in the current environment many are wasting their time and resources. Even the winners may be losers a few years down the road; critics have already begun mounting the case against the F-22.

Concentrating in defense sectors through mergers, acquisitions and/or sale of civilian divisions (3):

Expected cuts have started a consolidation of U.S. defense industries that parallels the shake-out that occurred in Europe in the late 80s. The most celebrated recent case was that of LTV. Since 1986, the company had been operating under bankruptcy court protection. In

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23. Both quotes reprinted in Center for Defense Information, "We Arm the World," The Defense Monitor, 21:5 (1992).

24. Center for Defense Information, ibid pp. 1, 6.

1991 LTV agreed to put up its aerospace units for sale in to help raise money for its pension plans. In April 1992, Thomson, S.A. of France made a bid to acquire LTV's missile business. This sparked a debate in Congress about foreign purchases of defense businesses.[25] In July, Thomson-CSF S.A. withdrew its $300 million bid just before a government committee in Congress was going to recommend blocking the deal on technical, rather than national-security grounds. Thomson still hoped to form some kind of deal with LTV that would allow for at least a minor role in the missile division.[26] LTV then decided to sell the unit to Martin Marietta and Lockheed Corp. for $440 million. On August 12, 1992, a day before the federal bankruptcy-court hearing in New York on the sale, a team composed of Loral Corp., the Carlyle Group and Northrop Corp. raised their standing bid for the units to $475 million.[27] The sale to the latter group was approved by U.S. Bankruptcy Judge Burton R. Lifland but still must be approved by the Federal Trade Commission. Loral acquired the entire missile business , which is mainly based in Texas, while Carlyle secured 51 percent and Northrop 49 percent of the aircraft business.[28]

Cutting back on military production without substituting other production (4):

This strategy entails gradual or rapid plant shut-downs and leads to lay-offs or early-retirement programs. As Table 5 demonstrates, this has been a widely practiced strategy.

Diversifying into civilian sectors (6) and Converting company capacity to Civilian production (7)

Conversion legislation was hung up for over 20 years because of provisions that mandated conversion planning. The requirement for alternative-use committees became synonymous with the term conversion. A less restrictive definition of conversion (consistent with the way the U.N., Russians, Chinese, and Europeans use the word) became current in the political environment of 1990 -- labeled "diversification" by Rep. Sam Gejdenson (D-CT), "economic adjustment" by Rep. Nick Mavroules (D-MA), and "economic stabilization" by Rep. Mary Rose Oakar (D-OH). This concept of conversion was embodied in the U.S. 1990 Defense Conversion Act, formally known as Division D of the defense authorization and appropriation acts for Fiscal Year 1991. The law provided Federal support to communities affected by defense cuts after they have been made -- a community must show that substantial defense layoffs already have occurred to be eligible to apply for a share of $200 million in Federal aid. With added perspective and experience, many of those who have advocated conversion for years have noticed that it rarely takes the simple form of changing machine tools on the factory floor.

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25. Arthur S. Hayes, "Thomson's Bid on LTV Stirs Concern About Foreign Control of Defense Firms. The Wall Street Journal, April 6, 1992, p. A4. Ted Shelsby, "Defense Industry Locked in Battle Over its Future," Baltimore Sun, May 10, 1992, p.D1.

26. Rick Wartzman, "Thomson Is Set To Withdraw Bid For Unit of LTV," Wall Street Journal, July 6, 1992, p. 2. "Thomson-CSF Withdraws Bid for LTV Missile Line," Wall Street Journal, July 7, 1992, p. C18.

27. Sarah Lubman, "Loral, Northrop, Carlyle Lift Bid For LTV Units," Wall Street Journal, August 12, 1992, p. A3.

28. Christi Harlan, "Loral's Group Outbids Martin Marietta, Is Awarded LTV Missile, Space Unit," Wall Street Journal, August 14, 1992, p. A3.

Table 5
Military Dependence and Job Cuts
Top 21 US Contractors, 1991

	Military/Total Revenues Percent (Rank)	Military-Related Workforce Reductions
1. McDonnell Douglas Corp.	55% (8)	22,000[ab]
2. General Dynamics Corp.	85% (3)	17,600[c]
3. General Electric Co.	13% (21)	7,600
4. Hughes Aircraft Co. (sub. of GM)	70% (6)	4,000
5. Raytheon Co.	54% (9)	5,100
6. Northrop Corp.	90% (1)	2,000
7. United Technologies Corp.	19% (20)	7,000
8. Martin Marietta Corp.	74% (5)	3,200[d]
9. Lockheed Corp.	70% (6)	700
10. Grumman Corp.	82% (4)	2,500
11. Westinghouse Electric Corp.	20% (18)	3,000[d]
12. Rockwell International Corp.	27% (15)	19,000[ac]
13. Litton Industries Inc.	47% (10)	400[f]
14. FMC Corp.	30% (13)	367
15. Unisys Corp.	26% (16)	15,000[a]
16. Loral Corp.	89% (2)	+11,050[g]
17. LTV Corp.	31% (12)	1,109
18. Boeing Co.	20% (18)	7,000[h]
19. TRW Inc.	39% (11)	2,586
20. Textron Inc.	23% (17)	2,000[a]
21. Texas Instruments Inc.	30% (13)	1,075[d]

a. Includes some reductions in commercial divisions.
b. 18-month total starting November 1990. 5,000 additional layoffs are expected by the end of 1992.
c. 17-month total from January 1991. Excludes reduction of 7,900 workers with the sale of Cessna Aircraft and GD's Data Systems Division, most of whom were kept by the acquiring firms.
d. Excludes early retirement and other attrition.
e. 19-month total from January 1, 1991.
f. Litton cut 2,400 workers from its Advanced Electronics division in 1991 but added 2,000 in its Marine Engineering and Production division.
g. Fiscal year ending March 31, 1991; Loral is the only company to increase its employment.
h. Year ending March 31, 1992.
Source: Council on Economic Priorities, based on annual reports and company interviews conducted primarily between July 20 and 28, 1992.

Conversion strategies are often panned on the grounds that they have been unsuccessful in the in the past. Defense-firm CEOs, when the subject of conversion is broached, are quick to cite disaster stories from the 70s to justify their intransigence in even considering conversion. Yet the largest barriers to conversion may be in the minds of corporate managers in the defense industry, who collectively discount conversion prospects.

Failures have been exaggerated by those -- on both sides of the political spectrum -- who poke fun at the "muscle-bound" military contractors falling on their faces when they shift to civilian work.[29] Successes have been inadequately appreciated.

The positive news is the piling up of surprising success stories from defense contractors that have attempted to commercialize their defense technology. According to the 1991 survey of high-level defense-industry executives undertaken by the Winbridge Group, corporate America seems to have learned something from the conversion failures of the 1970s. Of executives responding, 48 percent reported "strategic and financial success" in selling their products in commercial markets. Even two-thirds of those opposed to conversion because of past failures said their firms had technology with commercial potential.

The "Disasters" Revisited

Some widely publicized failures were near misses. Grumman's "Flxible" [sic] buses cracked under the stress of New York City's fiscal-crisis-pitted streets and the division was sold in 1983 to General Automotive Corp. But the buses continue to be used satisfactorily in suburban areas or southern cities where the roads are better maintained.

Some failures resulted directly from poor leadership or inconsistency in Federal Government policies. Grumman's solar-energy products actually were succeeding when oil and gas prices came down in the early 1980s and Federal support for solar tax credits became uncertain.

Poor Federal leadership in the mass-transit arena in the 1970s clearly contributed to the treacherous climate for trolley and rail-car contractors. Boeing's helicopter division faced declining military orders in the early 1970s and explored diversification options. Its team, led by Carl Weiland, successfully bid for and delivered on a contract from the Urban Mass Transit Administration (UMTA, in 1992 renamed the Federal Transit Administration) to prepare specifications for the "U.S. Standard Light Rail Vehicle," a high-tech trolley car.

Then Boeing bravely bid and won another UMTA contract to produce 230 trolleys for Boston and San Francisco. Boston's transit personnel were terminally baffled by the new technology; in San Francisco, the problems were less serious. Despite its trolley problems, in 1974 Boeing bid, won and successfully delivered on an UMTA contract to deliver 200 elevated-railway cars for Chicago, which wisely specified little new technology.

The coup de grace for Boeing came in the second round of contracts for UMTA's space-age trolley for Philadelphia's SEPTA in 1976. Boeing lost out to Kawasaki; oddly, the importance of the mass transit manufacturing business to the U.S. was not taken into account by UMTA in permitting Philadelphia to buy cars that were 80 percent federally financed from Japan. Boeing left the business, as did Rohr Industries, a military contractor that won a 1969 San Francisco contract to deliver 450 subway cars; the cars required so many post-delivery modifications that Rohr sustained severe losses until it closed down this activity in 1976.

In retrospect, it was no disgrace for these two companies to pull out; so did the ones that had been in it for years -- Budd (purchased by Canada's military contractor Bombardier), Pullman Standard and St. Louis Car.[30] The big loser was U.S. industry.[31]

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29. Murray Weidenbaum, Small Wars, Big Defense, pp. 49-50, 56, Oxford University, New York, 1992.

30. Morrison-Knudsen Corp. last week signed agreements with Lockheed Missile & Space Co. and Hughes Aircraft Co. to develope prototypes of high-tech mass transit cars for the Los Angeles County Transit Commission.

Successes

As examples of successes, consider Grumman's post-World War II initiatives in the use of aluminum for canoes and truck bodies. By any reasonable standard these initiatives should be rated highly successful, contrary to published reports.[32]

For example, the aluminum canoe, introduced in 1945, was a good and durable product that quickly developed a significant following; not until 1990, when aluminum boats faced lighter competitors, did the company sell its Boats Division to Outboard Marine Corporation. Grumman also in 1946 started the Grumman Olson Division making aluminum delivery-truck bodies and in 1986 won Grumman's largest single contract in its history ($1.1 billion) to supply 99,150 aluminum-body long-life vehicles (LLVs) to the U.S. Postal Service; in 1991 it received another contract ($555 million) for another 43,505 vehicles. Grumman is also successfully bidding for data-systems work and commercial aircraft subcontract contracts, and has two contracts to make components for the Boeing 777.[33]

The best predictor of successful commercialization is the involvement of groups of people working in small teams with the active support of top management. So conversion/diversification has an ecological analog. In nature, transplanting large trees has been shown to be difficult, while smaller trees take root more easily. The same applies to converting business enterprises. Small works. Here are two additional examples of diversification drawn from large companies:[34]

Hughes Aircraft, the large Los Angeles-based defense subsidiary of General Motors, is a leader in aerospace conversion, although its successes have not prevented thousands of layoffs. Bob Dankanyin, its senior vice president for commercial diversification, in 1992 said he is the only person in the defense business with such a title. His staff oversees 50 small diversification projects. Not all of these seeds are expected to bear fruit, but Dankanyin checked off five that are already producing profits for Hughes: (1) provision of satellite services; (2) wide-area networks that tie together far-flung business operations; (3) simulators for training; (4) air-traffic-control equipment and services; and (5) "heads-up" instrument

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31. Robert DeGrasse, Military Expansion, Economic Decline, 1987, pp. 103-105 and 112-113 and author's interview on July 30-31, 1992 with Richard L. Centner, Deputy Director, Office of Public Affairs, Federal Transit Administration, July 30, 1992; Richard Kunz, Editor, New Electric Railway Journal; Seymour (Sy) Kashin, co-author of Electric Railway Presidents' Conference Committee; and Marty Lenow, former Boeing Vertol manager on the project and subsequently Vice President of Pullman Standard for the AMTRAK car, Boston commuter car and New York City's R-46.

32. See Markusen and Yudken, Dismantling the Cold War Economy, p. 214, Basic Books, 1992 and Weidenbaum, Small Wars, Big Defense.

33. Data on the Grumman record in this and the next few paragraphs are based on an author's interview with John Vosilla, Grumman Corporation, July 30, 1992.

34. For measures of regional defense vulnerability and likely dislocation from defense cuts, see Betty G. Lall and John Tepper Marlin, Building a Peace Economy: Opportunities and Problems of Post-Cold War Defense Cuts (Boulder: Westview Press, 1992), pp. 52-58 and "Defense-Cut Dangers," CEP Research Report, February 1992. The Conversion Information Center is preparing a detailed report on the layoffs and conversion practices of the top 30 defense contractors.

panel displays for cars, which project data on the windshield.

TRW's Space and Defense Sector vice president Peter Staudhammer heads up the Center for Automotive Technology. He applies defense technology from the Space & Defense Sector to TRW's traditional automotive products. Started in 1990 with a core staff of six engineers, by the end of 1991 it had lined up 80 space and defense scientists and engineers to work on more than 60 projects -- and the projects were two-thirds funded by user automotive divisions. The space and defense personnel are not asked to develop new products. Rather, what seems to work is application of aerospace-side skills to civilian problems. TRW is also successfully following one of the most common paths to conversion by pursuing non-lethal government contracts in the realms of environmental cleanup technology and arms control verification technology.

The three imperatives of economic adjustment for defense contractors are: (a) Management must reorient itself -- the owners, directors, and managers (preferably with employee involvement) must reorient their production and marketing goals from selling to a single military buyer to providing goods and services to multiple civilian business and government buyers. (b) Employees must be retrained in line with those changed goals, or new employees must be hired who have the important skills in marketing and cost control that are less essential for military contractors than for companies producing for civilian markets. (c) Facilities must be prepared for civilian production and related systems must be reorganized and retooled in line with the new goals. The caveat should be noted, however, that even conversion successes usually employ fewer people than defense contracts, though there are exceptions.

Many small companies that attempt to diversify or convert their production discover that they have not kept up with modern machine technology and current thinking on "total quality management" (TQM). Continuing education programs and the creation of flexible manufacturing networks can lead to valuable gains in knowhow and efficiency. The Federation for Industrial Retention and Renewal (FIRR) is widely heralded for its role in disseminating information and providing guidance in modernization.

IV. COMMUNITY STRATEGIES

Without conversion programs, parochial economic interests distort the defense debate and tie up national resources that should be redirected to more productive uses, for the immediate reaction of many communities to impending plant or base closure is panicky lobbying by their Congressional representatives to prevent termination of the weapon or facility. Though local panic is not surprising given that the United States in the early 1990s was unprepared for the transition to a less military-oriented economy, these short-sighted lobbying actions are a costly way to buy time, only postponing community adaptation to changing economic realities. Communities that undertake a positive conversion program will be likely to experience a less painful transition to a normal economy. Some guidelines for local action follow:

Organization for local action is a necessary requirement for a successful response to an economic threat. The two key elements needed for successful local action are: (a) a core of community leadership, and (b) a consensus-building long-range plan that involves a broad spectrum of interests in a set of goals and related actions. Communities that plan ahead have been able to overcome adverse effects more rapidly than others. "The key to successful local recovery is strong private-sector involvement and effective local leadership," says John E. Lynch, an economic-development consultant who formerly worked in the Pentagon's Office of Economic Adjustment. He says: "creation of a single, effective, local recovery organization represents the most important step a community can take." To assist workers as cuts are made, a committee of labor and management chaired by a non-partisan outside community leader is a good model. In the United States, an accessible job center or placement program is often very useful to teach job-search skills and advise on the Federal Jobs Training Partnership Acts (JTPA) and other government programs. Worker re-training courses should be available.

Planning ahead means defense-dependent communities should monitor the defense-budget process to anticipate termination of a locally manufactured weapon system. Early warning can make a big difference, because the community, company management and workers can then begin the process of thinking about alternative economic activities. It commonly takes at least 18 months before termination of a contract causes the end of work at the factory level.

Economic development programs are the usual response of a U.S. community to the threat of economic dislocation, starting with creation of an economic-development task force. Such a group may be led by government officials, a nonprofit organization or a private sector group or consortium; but the regional-council approach is probably the best way to focus the resources of the many affected communities. This is the model adopted by the successful St. Louis, MO area program. The focus of an economic-development task force should be to formulate a strategic plan, not just for coping with defense cuts, but also for economic development generally. The economic-development task force will commonly recommend creation of a local economic-development office, if one does not already exist, to keep an eye on the long-term viability of the local economy and key businesses. If a defense business could be diversified or a plant retooled at a reasonable cost, it would avoid much worker strife and economic difficulty. To encourage thinking about alternative uses for physical facilities and workers, planning commissions or city councils in the United States can offer small grants, tax breaks or other incentives.

Diversification programs often pay off for a community. A task force seeking to diversify its community can: (a) Offer diversification incentives such as free technical assistance to defense contractors to encourage them to look into commercial markets (funding for such projects may also come from the state level), and (b) Encourage growth industries to take root in their communities through use of aggressive marketing programs that can include government and university advice. While diversification efforts have succeeded, the danger is that tax abatements, subsidies and special infrastructure improvements may skew the community tax structure unfairly toward residents, who might have to pick up significant service costs related to the tax-abated companies. The carrots may also simply attract carpet-bagging companies that move on again after a few years when the benefits have expired and they are wooed by another locality. Often investment attraction simply requires keeping industrial brokers and utilities (which sometimes informally serve the broker function) up to date on improvements in the business climate.

Education and training are among the best long-term investments of any community and are usually essential to successful economic transition. A well-educated labor force is widely viewed as a big advantage in attracting new industry. Continuing education and vocational training programs have the fastest payoff because the knowledge that is transferred is put to work immediately in the economy. About 80 percent of the U.S. workforce in the year 2000 will have entered it before 1985; technological advances will require workers in many occupations to switch jobs several times during their working lives. Displaced defense workers (both highly skilled and less skilled) are among the people who clearly need to retrained for changing job opportunities and who are good prospects for benefiting from such training. In addition to programs instituted at the local level, the Federal JTPA pays for training and facilitates employment-generation programs at a metropolitan or regional level. But compared to economic-development aid, JTPA is relatively well funded.

Assisting local companies and their employees is an essential strategy because existing businesses create nine of every ten new jobs. Several strategies are effective. Many cities have created "one-stop" centers for dealing with the array of business problems. Economic-development agencies can also provide financial and management assistance for small businesses and help them comply with local regulations or obtain city services.

Government intervention is usually accompanied by inducements (such as procurement set-asides or free resources) that have one or more of the following objectives: internal restructuring, cost cutting, management or marketing changes, development of new product lines, plant renovation, or changes in ownership or capital structure. Other forms of company assistance include subsidy of technology transfer (whereby the local, state or Federal Government defrays the cost of acquiring new technology) and assistance in entering new export markets.[35]

The Record of State-Local Intervention.

Often the magnitude of the adjustment some communities must face is slow to register. A survey conducted by the Council on Economic Priorities in early 1990 of 44 state officials (representing 25 states) responsible for economic planning and development revealed that over 80 percent did not expect Federal adjustment legislation to help localities affected by defense

35. An innovative example is the nation's first publicly sponsored export trading company, XPORT, established by the Port Authority of New York and New Jersey.

cuts to be "needed or desirable." States had become used to handling their recessions on their own, with little Federal assistance. State economic-development offices have grown substantially, from an average salary-and-operations budget of $5 million a year in 1984 to $22 million in 1988 and most remained in place during 1990.

With the onset of the recession in mid-1990 and the beginning of defense cuts, many states changed their attitude. By 1991, half the states (including most in the Northeast) were so hobbled by budget deficits that they could not adequately cope with existing problems, let alone the transitional retraining and development needs created by defense cuts. Federal economic-adjustment legislation was passed in late 1990 and by 1992 was seen as essential for the hardest-hit communities, with $1 billion in conversion money appropriated by the House in June and at least that much in the pending Senate defense bill.

A model program that combines education initiatives with the possible efforts mentioned above is the comprehensive and decentralized Ben Franklin Partnership Fund, which brings together higher education institutions and small businesses in Pennsylvania's "Advanced Technology Centers," such as the computer science center of East Stroudsburg State College. Other good state programs have been developed by Georgia, Massachusetts, Michigan, New Jersey, New York (with a focus on Long Island) and Ohio.

Table 6. CORPORATE/COMMUNITY CONVERSION LESSONS

Keys to corporate success:
. plan ahead in preparing groups and ideas for technology transfer work
. keep conversion projects small: transplant saplings, not grown trees
. management enthusiasm is key
. seek civilian government contracts when possible
. integrate workers with commercial production and marketing experience into development teams
. give ventures adequate time to succeed

Keys to community success:
. anticipate cuts well ahead of time
. incorporate conversion planning into broader strategic plans for community growth
. seek input from a variety sources; community leaders, companies, labor, NGOs
. institutionalize the planning process
. use available federal and state assistance
. encourage cooperation among companies through such mechanisms as flexible manufacturing networks
. avoid giving away too much in attracting new business

Overall, little government money has been invested in conversion since World War II but the money seems to have been well spent and additional funding is justified. In St. Louis, for example, it is hard to believe that the transition in the early 1990s would have gone as smoothly without the strong and persistent regional focus -- with modest government support -

- on the process. The success stories indicate clear lessons for corporations, labor unions and communities interested in taking the civilianization path (see Table 6).[36]

V. POLICIES OF THE BUSH ADMINISTRATION

On May 28, 1992 the White House put forth a slate of proposals to supplement the $7 billion that the nation is purportedly spending in 1992 and 1993 to facilitate the transition to a Post-Cold-War economy.

Bush was in Phoenix, on the road to hard-hit California. The House was clearly about to pass a defense bill that allocated $1 billion to conversion.[37] Bush announced he had been converted to providing some constructive transitional programs for laid-off defense workers. Some accepted the Administration's claims verbatim[38], but the May Fact sheet, and a follow-up fact sheet in July, distort the spirit and record of White House policy.

The Bush Administration had no defense-conversion initiatives before May 1992, has undermined those mandated by law, and has persistently tried to block conversion legislation in Congress. Both "Fact Sheets" grossly exaggerate the amount of money that is specifically targeted for the current transition.[39] These "initiatives" are for the most part a pastiche of long-standing and tangential programs without coordination or credibility.

The Administration's strategy for coping with the economic impact of defense cuts seems to be (1) to deny that the security environment has changed and limit the cuts in the first place; (2) make up for cuts in Pentagon procurement with more licenses for foreign arms sales; and (3) for the rest, leave adjustment to the invisible hand of the market.

It is perhaps poetic justice that the recent poor performance of the economy that imperils the President's re-election is being attributed in part to the inability of defense-dependent communities to adjust to the cuts so far.[40]

Dismantling Development Programs

The Reagan and Bush Administrations first began undermining our capacity to deal with the current transition by gutting Federal economic-development programs throughout the 80s. Between 1978 and 1990, funding for the Economic Development Administration (EDA, in

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36. Examples of such programs are detailed in Lall and Marlin, op. cit., Chapters 5, 7 and 8, pp. 59-72 and 89-294.

37. The bill did actually clear the House on June 5, 1992.

38. See, e.g., Louis Uchitelle, The New York Times, "Cutback in Military Spending...," August 12, 1992.

39. The White House, Office of the Press Secretary, "Fact Sheet: Defense Adjustment Assistance," May 28, 1992, 5 pp. and "Fact Sheet: Defense Adjustment Assistance," July 30, 1992, 4 pp.

40. Lawrence Chimerine, economist and adviser to DRI-McGraw Hill, and others attribute the poor performance of the leading-indicators index in part to "the reduction in military spending." See "Economic Index Shows Little Vigor Ahead," The New York Times, September 2, 1992, p. D1. Bush attacked Ronald Reagan for his Voodoo Economics. Now Bush himself seems to be in deep voodoo.

the Department of Commerce) dropped by 79 percent, for Community Development Block Grants (Dept. of Housing and Urban Development, HUD) by 54 percent, for Urban Development Action Grants (also HUD) by 100 percent and for the Small Business Administration by 85 percent.[41] Much administrative experience and skill was lost when these programs were dismantled. Economic development programs like these are the core of the community-based adjustment strategies we need to cope with the loss of jobs ahead of us.

The most important adjustment initiative in 1990-1991, Division D of the 1990 Defense Authorization Act (PL 101-510), was opposed by the President. It created a small-scale pilot program funded at $200 million (about seven hundredths of a percent of a roughly $300 billion defense budget). If the program had been promptly executed, their effectiveness might have offered valuable lessons on how best to facilitate the much larger post-Cold-War transition ahead of us.

Funds that have actually been dedicated to defense-dependent communities are less than one-hundredth the amounts claimed in Bush press releases. Only $28.3 million of $150 million appropriated to the Department of Labor for retraining defense workers has actually been spent.[42] Meanwhile, of the $50 million appropriated for Economic Development Administration (EDA) aid to communities for conversion, only two grants have been obligated, totalling $178,000 and only $135,000 has actually been spent, all in one state.[43]

The only reason Bush can claim to be spending EDA money in late 1992 is that his Administration sequestered it through most of Fiscal Years 1991 and 1992. Virtually every cent of conversion aid to states and localities was opposed by the Administration before enactment and has been minisequestered since then.

Bush's Record through 1990

Before 1990, bills promoting economic adjustment/conversion received no White House interest nor any Republican congressional interest.[44] When conversion bills were introduced in February 1990 after the collapse of the Berlin Wall, Bush appointee James L. ("Pete") Perry, then Acting EDA head, said that the Government should not make any effort to ease the burden of adjustment for defense workers. "The Federal Government is not responsible," he

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41. See U.S. Congress, Office of Technology Assessment, After the Cold War: Living With Lower Defense Spending, OTA-ITE-524 (Washington, DC: U.S. Government Printing Office, February, 1992), p. 173. The SBA budget dropped from $6.3 billion to $928 million.

42. As of September 1, 1992.

43. It commonly takes months before obligated funds are actually disbursed. The first obligation out of the $50 million was $145,000 on April 13 to the New York State Department of Economic Development. The second and only other obligation was to Charleston, IN on May 26 for $33,000. Two other grants were made earlier in 1992 that are described by EDA as "defense-related" even though they weren't obligated out of the $50 million allotment: on January 23 to the Economic Innovation Center of Rhode Island for $150,000 and on February 12 to the Massachusetts Industrial Development Corp. for $168,000. Source: John Tepper Marlin, interviews with EDA program officers David Witschi and Jim Lavery, September 2 and 3, 1992. As of September 3, 1992, of the $50 million appropriated in 1990, EDA had actually spent (disbursed) only $135,000, to a single state, New York; a grant of $1.5 million to Lynchburg, VA was on the verge of being obligated that day. Source: JTM interviews with Joyce McGearry, EDA press officer, September 3, 1992.

44. Mary Rose Oakar, "National Defense Authorization Act for Fiscal Year 1993: Extensions of Remarks," Congressional Record, June 5, 1992, p. E1700.

said. Least of all should money be given to the EDA, under his authority, because, he said, "EDA programs haven't worked."[45]

In September 1990, when the economic-conversion amendment (Division D of the 1990 defense bill) to assist affected workers and communities came to the floor of the House, the White House was opposed. House Republicans argued that no money should be spent on the problem.[46] The next month, Pentagon officials, warning of a presidential veto of the defense bill, told the press that they were unhappy with the conversion provisions because they set a precedent.[47]

In November 1990, the President appeared to back down when he signed the defense bill for FY 1991, with the conversion provisions that are now referred to as the Defense Conversion Act.

Bush's 1991 Record

President Bush's 1991 Economic Report said: "Defense cuts are an opportunity to allow market forces to redirect resources toward other productive uses,"[48] indicating little interest in helping laid-off defense workers. Later that year, President Bush refused to fund an extension of unemployment insurance he had signed into law. Months later, he authorized the funding -- and in 1992 takes credit for the law!

In March 1991, a news story noted that the Pentagon was still sequestering job-training and EDA funding, and that this discouraged state agencies from even seeking defense-adjustment funds.

In May 1991, House hearings probed the Pentagon's failure to transfer funds either to the Department of Labor or the Department of Commerce, as instructed in 1990. Funds were at last released to the Department of Labor in the fall of 1991.

Bush's 1992 Record

In January 1992, Bush announced his plan for 2 percent annual real cuts in the defense budget through 1997, devoting only one sentence to adjustment needs.

In a televised press conference in late January, held with the Council on Economic Priorities, Rep. Sam Gejdenson (D-CT) noted that the $50 million funds for EDA had still not been accepted from the Pentagon because of a dispute over a single word: "the".

Meanwhile, EDA apparently had solicited grant-applications from the communities surrounding Pease Air Force Base, NH and Electric Boat in Groton, CT in January when Bush was threatened by Pat Buchanan's primary challenge. The President also promised EDA

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45. John Tepper Marlin, interview with Pete Perry in Written Testimony Presented to the Joint Economic Committee, U.S. Congress, March 20, 1990 (New York: Council on Economic Priorities, 1990), pp. 30-31.

46. Oakar, "National Defense Authorization..." previously cited.

47. This was noted by Michael R. Gordon in The New York Times, October 1990.

48. Economic Report of the President, 1991, pp. 151-152.

funding for defense-dependent communities in Texas (March), and Arkansas (April).[49] But not until late March 1992, only after pressure from the media and Congress, did EDA announce how to apply for grants.

On May 28, 1992, slouching in the polls, Bush came closer to the conversion camp. In the face of imminent House passage of a $1 billion conversion package, part of the 1993 defense bill, President Bush announced his initiatives: "We will dedicate more than 1 billion additional dollars through 1996 on a number of additional [conversion] programs." Bush proposed $1 billion in spending over five years, a fraction of what will likely come through the House and Senate this year and in coming years. Bush used his "Fact Sheet" to claim credit for programs like EDA's that he has in the past tried to cripple.

The Reality: No Conversion

In fact, Bush has always opposed any form of adjustment assistance beyond foreign arms sales and politically forced extension of unemployment benefits.

1. His claimed $7 billion per year spending exaggerates by a factor of 100. Actual Federal money earmarked and obligated for conversion in FYs 1991 and 1992 is less than $29 million. If we add in "defense-related" obligations in anticipation of earmarked adjustment funds, the number is still only about $70 million -- a tiny amount when compared to the loss of several hundred thousand U.S. jobs attributable to the end of the Cold War. Bush's $7 billion is inflated by including programs that have long been in existence and have nothing to do with the unique problems of the end of the Cold War.

2. The funds truly earmarked for defense adjustment by the Congress were enacted over the objections of the Administration as we have seen, and have languished for lack of presidential leadership.

3. The EDA money should already have been spent. The original May 28 version of the "Fact Sheet" includes the $50 million to EDA as a Bush "initiative." Yet the only reason Bush could include it is that only a tiny fraction of the money had been spent. The July 30 revised version of Bush's "Fact Sheet" recognizes this irony and doesn't mention it (though it is still included in the total).

4. No coordinating mechanism for his package is described, which suggests that the "initiatives" are for the gullible and are not a serious program. Under the 1990 law (PL101-510), the Economic Adjustment Committee, created by President Carter by Executive Order in 1978 as a Cabinet-level body, was made statutory. In none of his "Fact Sheets" does Bush mention the Committee, nor has it ever met at the level of its principals.

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49. Senate Democratic Task Force on Defense/Economic Transition, Summary Findings, May 21, 1992, p. 3; and interviews with EDA staff.

VI. PROPOSALS

The best way to view the current transition is as an opportunity as well as a burden. Through a coordinated approach, the federal government could help willing defense contractors reorient part of their production toward civilian and commercial projects to (1) minimize the economic fallout that defense-dependent communities face, (2) break the related political pressure that bolsters unwarranted military spending and dangerous weapons exports, (3) facilitate some constructive return on the billions of dollars we have invested on R&D through the military (our closet industrial policy), and (4) take a major step in reorienting government programs to address our tremendous backlog of domestic needs.

The U.S. defense budget will have to shrink much more before it matches our rhetoric about the end of the Cold War and the New World Order, but the United States is already in the midst of a painful demobilization. As mentioned above, 500,000 jobs have been lost so far (since the Reagan military-spending peak) and another two million layoffs and mustering-outs are in the cards.[50]

The United States has successfully managed demobilization in the past, but we did so with a greater commitment to the process than the present Administration has shown. After World War II, demilitarization was easier, because most companies could go back to making the products they made before the war. Today, the intense specialization of our defense companies, encouraged by bizarre and costly procurement policies, makes the transition in the 1990s much more problematic, though some significant and unfairly dismissed success stories can be found.

A more formidable barrier could be our failure to grasp the true economic relation between defense spending and prosperity. Conventional wisdom (eagerly sponsored by a troubled Administration) seems to hold that part of our current economic difficulties can be attributed to Cold War demilitarization. Much more of our current trouble, however, can be ascribed to the huge defense budgets of the 1980s that drained away vital resources and human talent from civilian and commercial sectors while deepening our unfathomable deficit. Perhaps this was the price of winning the Cold War, but if we are to grapple with the economic challenges ahead, we must reduce the dependence of our high-tech sectors on military contracts, and reinvest in the civilian sectors, which constitute the real U.S. industrial base.

A. Short Term

Review 1990's Budget Enforcement Act. The incoming President should meet with congressional leaders and review the applicability of the restrictions of the 1990 Budget Enforcement Act "firewall," which allocates savings from the military budget solely to deficit reduction. The firewall expires in October 1993, but is enforced at the president's discretion by the Office of Management and Budget.

Energize the EAC. The 1990 Conversion Law and the 1992 law recently passed by the Senate give the president considerable latitude and financing to undertake conversion activities upon taking office. The Economic Adjustment Committee (EAC) would be a good mechanism for getting things started. The EAC is the steering group for the Office of Economic

50. According to the Office of Technology Assessment.

Adjustment set up in the 1960s and was given formal status as a presidential committee by President Carter in 1978. It was upgraded to a statutory body in the 1990 Conversion Law. The EAC is composed of the heads of pertinent agencies, but it has never met at the cabinet level. The President should demonstrate his commitment by chairing the first meeting.

The President should be inclusive in soliciting ideas from EAC members, the Defense Conversion Commission, and non-governmental organizations. He should hold the Economic Development Administration accountable for carrying out its portion of the 1990 Conversion Law by requiring that the annual reports (starting with 1991) on its disbursement of funds. He should recognize community success stories, such as that of St. Louis and defense contractors such as Hughes and TRW with successful conversion ideas, by inviting them to come to the White House to address the EAC.

Review Agency Roles. Through the EAC, the President should review the conversion roles of government agencies, including the Department of Commerce, especially its EDA and Assistant Secretary for Technology; the Department of Defense, especially the OEA; the Department of Labor; and the Small Business Administration. Agencies with international responsibilities, like AID, could be invited to EAC meetings to consider the applicability of lessons learned in U.S. conversion programs to conversion problems in the former Soviet Union.

Short-Term Measures

1. Work with existing congressional conversion initiatives,

2. Reappropriate DoD money for environmental cleanup of defense bases, as recommended by Sen. Sam Nunn (D-GA),

3. Expand the Manufacturing Technology Program inside DoD and Commerce to provide more technological and marketing help to small defense suppliers,

4. Extend training and incentives for defense-industry employees to do civilian work,

5. Redirect the National Labs to play a much larger role in carrying out environmental, public-transportation, energy-generation, and conservation research,

6. Assist small defense contractors with SBA programs and EDA support of community-based revolving-loan funds,

7. Encourage small-business technology development by extending the one-stop industrial services centers for small businesses established by some states,

8. Create an extension service for defense contractors, especially small ones, and workers to link up with commercial work,

9. Simplify defense-procurement regulations and reduce enforcement staff.

Long-Term Goals: Five Ideas

1. **Build high-speed railway lines** as a flagship infrastructure-development program. Much of the funding for such a venture should come from the private sector, but it surely won't happen without leadership from Washington. Tilt-rotor and supersonic planes on which we are currently spending billions have dubious commercial prospects, but high speed rail transportation has immediate practicality.

2. **Increase industrial-reinvestment aid to states and localities.** Increased aid to states and Federal programs targeted to create jobs in hard-hit areas would help save local jobs. Examples of alternatives to military investment suggested by Rep. Sam Gejdenson (D-CT) are: solar and renewable energy R&D; energy conservation; pollution control and abatement; historic preservation; maglev, ultra-high-speed rail development; increased mass-transit funds, including funding for the Intelligent Highway Vehicle System; community-development grants; increased EDA grants and JTPA Title III funds; and export-enhancement programs.

3. **Encourage reforestation.** A task that would put many people to work and if handled appropriately would generate enormous environmental dividends is reforestation.

4. **Encourage business investment.** Sen. Joseph Lieberman (D-CT) in his bill (S2075) promotes assistance to defense-dependent firms (i.e., firms more than 35 percent dependent on defense contracts) through a business equivalent of the IRA --a tax-free deposit by which a company can accumulate money to use for investment in new nondefense plant and equipment, and for employee retraining.

5. **Contain arms exports.** U.S. conversion efforts should be explicitly linked to multinational efforts to reduce arms exports and a national policy for guiding civilian R&D to encourage civilian innovation. This would reduce the chance of the "New World Order" turning into new world orders for advanced weaponry -- and slowing our conversion to a peacetime economy.

These conversion-related proposals raise a broader issue. The next administration must consider scrapping the hidden military-dominated industrial policy of the Cold War era and substituting an open West European-Japanese style civilian industrial policy. This policy would not imply massive centralized industrial planning, but rather guidelines, targets and temporary assistance to facilitate the preservation and growth of specific industrial sectors.

Chris Dodd

U.S. SENATOR FROM CONNECTICUT

FOR IMMEDIATE RELEASE
September 17, 1992

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STATEMENT OF SENATOR CHRISTOPHER J. DODD
FOR THE DEFENSE CONVERSION COMMISSION

Mr. Chairman and members of the Commission:

Thank you for the opportunity to offer this testimony on the subject of defense conversion. I appreciate the opportunity to present this written testimony today and I look forward to expanding on these points during your hearing in Washington, DC, on October 1 of this year.

I might point out that defense conversion is an issue I have long had an interest in, Mr. Chairman. In fact, when I was a member of the House of Representatives in 1979 the late Congressman Stewart McKinney and I introduced a pair of bills designed to help accomplish some of the goals this Commission is addressing today.

Back then, of course, there wasn't much support for economic conversion legislation, and we received a total of less than 25 cosponsors between the two of us. Today, with the Soviet Union gone and Communism having collapsed, it seems that everybody is in favor of conversion legislation -- and rightfully so.

Mr. Chairman, the problems raised by the decline in defense spending are surely not the most serious facing America. Indeed, the difficulties confronting our society are deep and widespread.

But the cutbacks in defense spending, and the pain those cuts will inflict on working Americans and their families, go directly to the core of the economic debate. These cuts have exposed an underlying weakness in our economy that stems from nearly 12 years of neglect. And they raise profound questions about our investment in the technologies and resources of tomorrow, and our commitment to the working men and women of today.

Earlier this year, Mr. Chairman, the Senate voted to preserve funding for the Seawolf Submarine. That was a critical vote, not just for the workforce of Southeastern Connecticut but for the industrial base of our nation.

But even with the Seawolf, no one should doubt that the reductions in the defense budget will have a dramatic impact. And no one should doubt that the damage will be limited to defense industries and defense workers.

Defense spending is not just a matter of national security, Mr. Chairman. Our defense spending represents a massive commitment to the materials and the technologies of tomorrow. Ten percent of our nation's manufacturing workforce can be found within the defense industry. Eighteen percent of our nation's engineers are involved in defense work. And 60 percent of our federal research dollars are spent by the defense sector.

The dramatic cuts in store for our defense budget will leave no sector of our economy untouched. If we are going to take this step, Mr. Chairman, we ought to know where we are going. We ought to have a plan to help workers and communities make it through the transition. We ought to have a strategy to invest in the technologies of the next century. We ought to have a vision of an economy that is up to the challenge of global competition.

In the last few months, some of us in Congress have taken the initiative to begin putting together a plan of action. Under the direction of the Majority Leader, Senator Mitchell, we established a Defense/Economic Conversion Task Force here in the Senate. I am proud to have participated as a member of that task force.

Mr. Chairman, as I am sure you are aware, that task force presented its proposals on May 21 of this year. Since then, many of those proposals have been incorporated into the Senate version of the Defense Authorization bill, which is currently pending before the Senate.

There is no absolute recipe for defense conversion legislation. But any comprehensive plan, in my view, ought to incorporate at least the following elements:

Workers

Mr. Chairman, when a worker loses his or her job as a result of defense cuts, our goal as a society must be clear and compelling: to get that worker back into the labor force as quickly as possible. No social program, no matter how comprehensive, can match the simple benefits of a steady job.

In the meantime, laid-off defense workers must have adequate training for the challenges of today's job market.

Two years ago, in the 1991 Defense Authorization, Congress extended the Job Training Partnership Act to cover displaced defense workers. That was an important step, but it ought not to be where we end our efforts. Today that program should serve as the foundation for a much broader effort.

As one basic improvement, Mr. President, we should offer incentives for businesses that provide on-the-job retraining. There is no reason for a worker to be denied job-training benefits just because the pink slip is still in the mail.

Second, we must find a mechanism to improve the delivery of job training funds to distressed areas. In many cases, it is too little and too late.

And finally, we must provide adequate funding for job training activities, so that the funding of this program meets the need.

Community Development

Roadways, bridges, housing, sewage and waste water projects -- these are the elements of a healthy, growing society. The Economic Development Administration currently has about $50 million available to it for investments in defense-dependent communities like Groton. Unfortunately, outlays under this program have been very slow.

Over the short term, these projects will create high-paying jobs, for the benefit of workers that have been displaced. Over the long run, these programs will create economic stability, for the benefit of the entire community.

Export Promotion

We must rededicate ourselves to the promotion of exports. Over the last decade, approximately two-thirds of our economic growth has come from exports. Exports are the key to new markets, open competition, and business expansion.

Unfortunately, U.S. support for exports lags well behind that of our competitors. Take the case of Japan, Mr. President. In 1990, the French Government had one commercial affairs officer in Tokyo for every six French businessmen there. The Italian Government had one commercial officer for every two businessmen. The U.S. had one commercial officer for every 62 executives. We must give our industries the same level of assistance provided to companies overseas.

Finally, we need to extend the umbrella of export financing programs to cover defense products sold to friendly, developed countries. There is no reason our defense contractors and their employees should lose out on market share simply because they are up against heavily subsidized foreign competition.

Small Business

For small businesses, the most important answer is capital. We need to take steps to expand loan guarantee programs that get money into the hands of private entrepreneurs. As a first step, we should support efforts to strengthen the resources of the 7(a) program run by the SBA.

We should also support programs that offer counseling and market advice to small businesses, such as the Small Business Development Center Program, which has nearly 20 sites in the State of Connecticut.

Finally, we should support efforts to double the size of the Small Business Innovation Research program. Last year, this important program pumped nearly $500 million into some of the most innovative and creative small businesses across the country. Few programs offer a better return on their investment.

Technology Innovation

Companies must have unfettered access to the critical technologies of today, and the emerging technologies of tomorrow. An invention that remains in a federal lab is an invention wasted. A nation that cannot make use of technology is a nation that cannot grow.

It is technology that allows companies to adapt to a changing world environment. It is technology that allows the independent entrepreneur to race ahead of the competition. It is technology that will allow America to compete -- and win -- against the international field.

The time for bold action is now. The government of Japan maintains almost 200 federally funded technology centers around the country. The United States, by contrast, has only seven. Of the 12 key emerging technologies identified by the Commerce Department, we are projected to lose market share in 10 of them. Where we should be leading the world, we are in grave danger of falling behind.

We need to open up the federal laboratories, so that private researchers and government scientists can work side by side on the technologies of tomorrow. We need to establish a network of manufacturing technology centers around the country. And we need to encourage states to establish technology programs of their own, each one tailored to local needs.

These issues will not be resolved by any simple means. Indeed, the decline in the defense budget forces us to ask fundamental questions about the scope and direction of our economic policy.

Will we continue our trend away from manufacturing and toward services? Will we be world leaders in the technologies of the future? Will we sell our products around the globe? Will we prepare our workforce for the challenges and opportunities of the next generation?

Will we create a more prosperous society for all our citizens? Or will we continue to squabble among ourselves for fewer and fewer resources?

The debate over economic conversion has raised these questions. Ultimately, the debate over conversion will have to answer them.

Thank you.

Defense Conversion Commission
Witness Registration

Hearing Site: GROTON, CT Time: N/A SEE NOTE

Name/Title Molly McKay Chairman, SE Group

Company Connecticut Sierra Club

Address PO Box 485

City/State/Zip Quaker Hill, CT 06375

Telephone/FAX 203 444.7821

Describe Company Product or Service "Promoting Sustainable economic growth

Submitted written testimony only.

Sierra Club
Connecticut Chapter

118 Oak Street, Hartford, Connecticut 06106 527-9788

TESTIMONY to the DEFENSE CONVERSION COMMISSION
Groton Municipal Building, Groton, CT September 17, 1992

The Sierra Club requests representation in the planning for economic recovery of southeastern Connecticut. This area, which has one of the last green belts in the heavily developed northeast corridor, has the unique opportunity to be a prototype of sustainable economic development which preserves natural resources and moves toward reliance on clean energy altermative systems.

Conversion from conventional methods to clean energy systems such as solar and hydrogen fuel cell technologies make ideal careers for the highly skilled work force from the defense industry. These businesses MUST have the support of government funds in order to lower prices to a competitive level.

As a start, the Sierra Club enthusiastically supports the following businesses and urges the Commission to make significant contributions to their development:

TECHCONN (Technology for CT, Inc) - developing hydrogen fuel cell technology for transportation systems.

Sea Solar Power - ocean thermal energy conversion

Solar Car Corp. of Melbourne, FL - wants to locate in Norwich-Groton area; needs retrained workers for converting vehicles.

Connecticut Municipal Electric Energy Cooperative - - has used retrained EB workers for conversion work; ready to put six electric vehicles on the road for public workers.

These industries are on the cutting edge of success and growth. With generous help from diversification funds, expansion and increased job opportunities can take place quickly.

We are aware that your Commission has met privately with the eastern Connecticut Chambers of Commerce. Their support for economic development has been focused on the proposed Jetport/ Industrial City (renamed Gateway Transportation Center) being promoted by William Stanley of Norwich. The Sierra Club vehemently opposes this project for the following reasons:

- This massive installation would consume 75,000 acres (117 sq.miles) 35,000 of which would be heavily developed for airport and industries.

"When we try to pick out anything by itself, we find it hitched to everything else in the universe." *John Muir*

Appendix FF

THE SIERRA CLUB/ CONNECTICUT CHAPTER

ECOLOGICAL SYMPOSIUM

" THE ENVIRONMENT, ENERGY & THE ECONOMY "

CONNECTICUT IN THE YEAR 2000 AND BEYOND...

Saturday, September 12, 1992

Blaustein Humanities Center, Connecticut College
New London, Connecticut

AGENDA

1. Registration/ Coffee — 9:00 - 10:00

2. Opening Remarks: **SENATOR CHRISTOPHER DODD** * — 10:00 - 10:30

3. Forum: — 10:30 - 12:00
   "HOW CAN CLEAN ENERGY MAKE AMERICA WORK BETTER"

   Bob Howard, Sierra Club - Moderator
   Joel Gordes, Solar Design Service
   Claire Markham, Saint Joseph College
   Melodie Peters, Thames Labor Coalition
   Cliff Neal, SE Connecticut Economic Development Coalition, and TECHCONN, Inc.

4. Press Conference: *" Connecticut's Energy Policy "* — 12:00 - 12:30
   Howard Taylor, Chair, Connecticut Chapter of the Sierra Club

5. Lunch/Keynote Speaker: **CONGRESSMAN SAM GEJDENSON** — 12:30 - 1:30

6. Workshops — 1:30 - 2:25, 2:35 - 3:30

   A. *"The Future of Photovoltaics is Now"*
   Jim Newberry, Sierra Club, Conservation Committee

   B. *"Volunteer Training/ Election 1992 - The Final Stretch"*
   Mark Bettinger, Sierra Club, Northeast Regional Office

   C. *"Highways, Airports and the Clean Air Act of 1990"*
   Priscilla Chapman, Executive Director, New England Chapter

   D. *"Fuel Cells, the Clean Power Option"*
   Stanley Smith, Research Chemist

7. Closing Remarks: *"A GLOBAL PERSPECTIVE"* — 3:30 - 4:00
   Judi Friedman, Chairperson, People's Action for Clean Energy

8. Dinner 5:00 - 7:00 (On your own)

9. Concert: " MIDDLE EARTH " and " ALEXANDER ZHURBIN " — 7:30 - 9:30

Registration Fees: Conference = $ 10.00 Members, $ 15.00 General Admission, $ 5.00 Students
Concert = $ 10.00/ $ 5.00 students Benefit for Sierra Club Political Committee & PACE

* *invitation extended*

P.O. Box 307
Jewett City, Conn. 06351
September 17, 1992

Defense Diversification Commission
Att: Acting Chairman Charles A. May, Jr.

Dear Sirs:

I shall be unable to stay long enough to testify since I did not know I had to call in for a time slot.

I have lived in Southeastern Connecticut for 22 years and for four of thse years was chairperson of a dedicated group, the Save Our State Committee Inc., which helped to defeat a proposal for a massive jetport-industrialcity being promoted as a solution to job loss. That proposal has now been resurrected by its proponents, again on the promise of many jobs. It would take reams of paper to present the reasons for not using this proposal to try to stimulate the economy, even if it were able to overcome the obstacles facing it. There was huge disapproval 20 years ago which is surfacing again.

At that time, the Southeastern Connecticut Regional Planning Agency, after many years of study, voted to oppose it (copy enclosed). This years, the Agency raised questions about its feasibility, at the present time, with the Federal Aviation Administration. (copies of questions and answers from the FAA enclosed.) Obviously, there isnot much, if any, encouragement from the FAA.

In addition, the media reports that you have been or are going to Atlanta and Dallas/Fort Worth because they have the same defense diversion problems as we do. They already have spent billions of dollars on building their Gateway Jetports which have not been effective in creating enough jobs to offset defense cutbacks.

I urgently request that the jetport industrial city concept not receive your support. The billions of dollars that would be wasted can be used more effectively in helping new businesses to be created , or to shore up weaker ones.

I should appreciate having this testimony entered into the record for your consideration.

Sincerely yours,

Mary B. Walton

Mary B. Walton

SOUTHEASTERN CONNECTICUT REGIONAL PLANNING AGENCY

NEWSLETTER

MARCH-APRIL, 1973

$25.3 MILLION IN SEWER GRANTS TO REGION

Water pollution control programs in the region have received a substantial boost with the award by the U.S. Environmental Protection Agency of a total of $25.3 million in sewer construction grants to the City of Norwich and the Towns of Montville and Stonington.

SCRPA Chairman David Wordell hailed the awards as a major step forward in the region's efforts to clean up its inland and coastal waters. He noted that the awards were made under a program requiring the existence of an adequate regional sewerage plan to establish grant eligibility. SCRPA's sewerage plan, which was accepted by the Environmental Protection Agency in 1971, met this requirement. Chairman Wordell said: "This is an important example of the very substantial dollar return the region is now realizing on studies and plans completed by SCRPA over the past 10 years."

AGENCY AWARDED DEMONSTRATION GRANT

The New England Regional Commission has awarded a grant of $29,550 to SCRPA to administer an environmental planning assistance team for the five planning regions in Eastern Connecticut.

The program will be a cooperative effort of the 5 regional planning agencies, the Eastern Connecticut Resource Conser-

continued on next page

AGENCY REJECTS JETPORT STUDY

A feasibility study of a jetport/industrial city in Eastern Connecticut prepared last year by Charles Maguire Associates for the Connecticut Port Authority Study Commission was unanimously rejected by the Agency at its meeting on March 12th.

In taking this action the Agency responded to a recommendation from its Program Committee, which had devoted 3 special meetings to a discussion of the report. The Committee concluded that the report does not adequately support the thesis that a jetport would be an asset to Eastern Connecticut. Specifically, the Committee found that data in the report were almost entirely undocumented, that in several instances the data were contradictory, that the analysis of environmental impact was superficial, that the economic analysis did not include the cost of developing the jetport and of providing necessary supporting facilities and services, and that no attempt was made to evaluate alternate means of stimulating economic growth.

In a related action, the Agency also voted to oppose the establishment of a jetport in Southeastern Connecticut. It concluded that the economic benefits resulting from the construction of a jetport in this region would be very uncertain, while the social strains, the adverse environmental impact, and the sharp pressures on community facilities and services would be assured. This action supercedes an agency vote in 1969 which favored additional study of the possible benefits and impact of a jetport in the region.

egional selectmen give jetport cold shoulder

By SUSAN HAIGH
Norwich Bulletin

7/27/91

DANIELSON — William Stanley's pro-sed international gateway received luke-arm reviews from regional leaders sterday.

Mr. Stanley, a former state senator who is ring to resurrect his 25-year-old proposal an international airport and industrial y in eastern Connecticut, spoke to mem-rs of the Northeastern Connecticut Coun- of Governments in the hope of garnering me support.

"I'm putting an idea out there because I n't see another," Mr. Stanley said. "I ached upon the shelf and took this down consideration."

Although grateful for the suggestion i onomic development in northeastern Con-cticut, Donald Williams, COG chairman d Thompson first selectman, said he still not convinced a major international teway is the way to go.

"I appreciate Mr. Stanley coming forward th this idea," Mr. Williams said. "But onomic development is not an issue where vernment can wave a wand and have one rticular project solve everything."

In the 1960s, planners of Interstate 395 — another massive undertaking — predicted it would prove an economic boon to northeast-ern Connecticut.

With the highway, the Providence and Worcester Railroad, T.F. Greene Airport in Warwick, R.I., the deep ports in New London and Bradley International Airport available to the region, Mr. Williams ques-tions the need for the jetport.

"I think we have a pretty good transporta-tion structure in eastern Connecticut," he said. "We have to ask, 'Why don't we already have the climate for economic growth?' "

Mr. Williams asked whether a new airport for cargo and passengers is even needed, considering that more than 20 years have passed since the issue was first discussed.

"My understanding is that your industrial cargo is shipped mostly by truck and rail," Mr. Williams said. "The types of break-throughs you talked about years ago haven't occurred."

Mr. Stanley, however, insisted a gateway for cargo and international passengers is still needed today to supplement overcrowd-ed airports in New York and Boston.

"If you got half of 1 percent of the traffic going to Europe, this airport could survive," he said.

Brooklyn First Selectman Donald Francis, who recently met with the state Department of Transportation commissioner, said he is skeptical Mr. Stanley's plan would ever come to fruition.

"You have got to do some pretty heavy convincing that you can take an 86,000-acre tract and make it into a major airport," Mr. Francis said. "Because I've spoken with DOT, and they say there is no way a limited expressway can even be built in this state now."

Mr. Francis was referring to requests to the state from some Brooklyn residents who want the defunct I-84 project resurrected instead of plans to improve Route 6, a major east-west corridor through the center of town.

Mr. Stanley, who appeared undaunted by the selectman's remarks, said the state's priorities will eventually change when peo-ple find themselves on the brink of disaster.

He is predicting Electric Boat will close its doors within the next decade.

"We're going through some tough times right now and we have to do something for our children," Mr. Stanley said. "What I bring to you may be revolutionary, it may be different. But it's doable."

SOUTHEASTERN CONNECTICUT REGIONAL PLANNING AGENCY
139 Boswell Avenue, Norwich, CT 06360
Tel. (203) 889-2324
FAX: (203) 889-1222

13 July 1992

Mr. Vincent Scarano, Chief
Planning/Programming Branch
Airports Division
Federal Aviation Administration
12 New England Executive Park
Burlington, MA 01803

Dear Vince:

As you are aware, the twenty-year-old proposal to construct a gateway jetport in eastern Connecticut and/or western Rhode Island has been revived as Southeastern Connecticut's economy begins the changeover from defense to civilian orientation. In developing an understanding of the current proposal, I have several questions related to current or potential roles of the FAA to which I would appreciate having written answers.

First, is the concept of such a gateway airport in southern New England included in any current national or regional airport plans of the FAA? If so, I would appreciate having a copy of such plan(s).

Second, has the FAA itself or through consultants studied the question of a transportation need for a gateway airport in southern New England? Again, I would appreciate receiving a copy of any such study.

Third, has the FAA considered or is it currently considering undertaking an evaluation of the feasibility of a gateway airport in southern New England either itself or through some other party? If so, I would appreciate having details on the nature of the work under consideration and on the status of the matter.

Fourth, has any governmental or private entity approached the FAA to discuss the possibility of funding or other support for a feasibility study of a gateway jetport in southern New England? If so, I would appreciate having a description of the nature of this request and its current status.

Fifth, if a governmental entity wished to pursue a feasibility study of a gateway jetport in southern New England, what would be the process for seeking FAA support?

Finally, what is the current official FAA position regarding the concept of a gateway jetport in southern New England?

Thank you for whatever help you can provide in answering the above questions. Should you wish to discuss them before responding, please call me.

Sincerely,

Dick

Richard B. Erickson
Executive Director

U.S. Department
of Transportation

Federal Aviation
Administration

New England Region

12 New England Executive Park
Burlington, Massachusetts 01803

RECEIVED
JUL 22 1992
SCRPA

July 17, 1992

Mr. Richard B. Erickson
Executive Director
Southeastern Connecticut Regional Planning Agency
139 Boswell Avenue
Norwich, Connecticut 06360

Dear Dick:

Your July 13, 1992 letter concerning the proposal for a gateway jetport in southern New England is not the first inquiry this office has had during the past year.

In response to your first question: The current National Plan for Integrated Airport Systems (NPIAS), does not identify a "gateway airport" in southern New England". It does, however, identify "Boston-New Airport." The NPIAS typically adopts the recommendations of the State Airport System Plan (ASP). The Massachusetts ASP did identify the need to consider a second major airport in the next 10-15 years. The Connecticut ASP does not include any recommendation for a major new airport in eastern Connecticut.

If we think of "gateway" airport in the broadest sense, that is a second major airport for the Boston area, the answer to your second, third, fourth, and fifth questions is responded to by the following information:

The Massachusetts Aeronautics Commission (MAC) received an FAA grant for a second major airport study in 1989. The first phase was completed late last year. In our opinion, that was a study for a "gateway" airport in southern New England. Unfortunately, or fortunately depending on your point of view, the MAC limited the study area to the State of Massachusetts. The argument could have been made, and in fact was, it should have include potential sites in Connecticut, Rhode Island, and New Hampshire. Copies of the report, Phase I, may be available from the MAC Project Manager, 10 Park Plaza, Room 6620, Boston, Massachusetts 02116-3966.

The MAC public information process, raised numerous questions about the need for a second major airport. The public's criticism was based on: (a) validity of the projected demand for air travel, (b) greater use of the existing regional airport system, and (c) other technological alternatives for the future, such as high speed rail, Maglev, tiltrotor. As a result of those issues the MAC has decided to proceed with another evaluation prior to proceeding with Phase II. Phase II was intended to be a comprehensive environmental analysis of the final two airport sites selected in Phase I. Based on the results of the interim study it is possible a decision to proceed with Phase II could be deferred.

The interim needs study will be conducted the by the A. D. Little Co., Cambridge, Massachusetts, and is scheduled for completion in 1993. The MAC will apply for an FAA grant. If you are interested in the study proposal contact the MAC Project Manager. We fully expect all the New England states to participate in this study as part of the recently adopted Memorandum of Understanding for intermodal planning. FAA would certainly welcome your interest and participation in this study.

Other than the MAC, we have not been approached by any other public or private interests to study a new airport proposal. It is unlikely we would entertain funding a parallel effort at this time.

Our position on a gateway jetport or second major airport for southern New England, is represented by our willingness to fund the studies referred to above. However, you should understand; that interest is clearly based on a need to supplement the projected passenger demand for Boston-Logan. Furthermore, we recognize that the airfield capacity improvements at Logan to meet the potential demand in the long range is limited. If a study for a second major airport for the Boston area includes other sites in southern New England that is fine. But that interest does not include other speculative proposals in southern New England that in effect are a response to create an economic stimulus. The financial viability of a major airport depends on so many other factors. Proposals without a passenger base are very questionable. If the proposal for a "gateway" airport in eastern Connecticut were in addition to the MAC second major airport concept, we would consider it very speculative. With Bradley, T. F. Green, Logan, and a potential Boston New, all serving the passenger market what would be the basis for still another gateway airport in southern New England? If a special use facility for air cargo or international flights is needed, wouldn't it make more economic sense to consider the virtually unused facilities at Westover and Pease. They are already a significant part of the existing national and New England airport system.

I trust this letter provided the information the you were seeking. These viewpoints are consistent with our previous discussions. Similar statements were also made to verbal inquiries by the Connecticut DOT, the media, and the proponents of the gateway airport concept.

Sincerely,

Vincent A. Scarano
Manager, Airports Division

cc: Richard Strauss, Director of Aeronautics, CT DOT
Michael Saunders, Director of Planning, CT DOT

Norwich Bulletin

SUNDAY
August 16, 1992

Jetport: 'nightmarish proposal that may take years'

By MARY WALTON

Hooray! The secret motive of the jetport opponents has finally been uncovered by the searching mind of David DiBattista, chairman of the board, Eastern Connecticut Chamber of Commerce.

Those of us who want to help create jobs without eliminating hills, valleys, ridges, wheat fields, farms, are now guilty of a major sin: We want to enjoy our surroundings. We want to pass on to our heirs at least part of the world created for us, that which has not as yet been destroyed by man.

In his shallow attack on one of the finest artists southeastern Connecticut has produced, Foster Caddell, who brings beauty and love to our region, Mr. DiBattista accuses Mr. Caddell of being devoid of feeling "for those who cannot enjoy similar pleasures due to being out of work" or being threatened by unemployment. It is the proponents of the jetport, especially the Federated Chambers of Commerce, who are devoid of feeling. They are raising false hopes.

Mr. DiBattista writes: "I am certain that full disclosure of all the facts about Gateway will eventually allay his (Mr. Caddell's) fears once such information becomes known." If all the facts are not yet known, how can Mr. DiBattista be so certain about its benefits — if not its shortcomings? How come he has already endorsed it, with the other Federation leaders, as a project worth investing in at a minimum $5 billion cost? Is his support and that of the other Chambers great enough for them to put up at least a billion-dollar performance bond to back up their eagerly anxious vocal support?

What can be done to make it feasible?

I was recently approached by a union leader who asked what could be done to make the proposal feasible. I understood his question to mean: Could it create jobs without the heartbreak of people who may have to give up their homes, their businesses, their farmlands, their ancestral heritage to the power of eminent domain which a Connecticut Port Authority would wield, which such a project must have in order to move ahead? In my opinion, after reading what is happening at the Denver Gateway construction site, and after years of study, including the flawed Maguire report and its attempts to draw conclusions not warranted by facts, I say this massive project invites a complete change in the way of life of eastern Connecticut — not for its betterment.

As to the Maguire report, the May 5, 1972 Bulletin stated: "In fact, despite pressure to do so from the sponsors of the study, the Port Authority Study Committee, chaired by former State Sen. William B. Stanley, the consultants refused to make any judgments about the proposal." On May 16, 1972, the Bulletin further reported, "At least one of the consultants hired by the Port Authority Study Committee ... found his views greatly modified and in some instances contradicted, in a summary he did not write ... The consultants noted in their comments in the report that the jetport would produce air pollution, noise pollution, changes in vegetation and wildlife." If the reader wants more newspaper coverage of this report, the Bulletin keeps files.

They seek a study but don't await results

Now the Federated chambers are reported getting ready to ask the Corporation for Regional Economic Development to sponsor a study of the proposal. It must be noted that there are five votes on the Corporation's Board of Directors held by the various Chambers of Commerce, some of which appear to be committed to the jetport proposal. They ask for a study but they do not wait for the results. The proponents refuse to reveal where they expect to construct this massive, speculative proposal of 35,000 acres of airport and buildings. Can you imagine how many factors have to be considered in an area of 117 square miles? Look at what happened in the search for a low level radioactive waste site! One area after another was found to have harmful possibilities. At this point, citizens of this region must stop fooling themselves that it won't happen here. They must insist that all the evasive talk about Ekonk Hill, Foster, N.E. Conn. be made specific or retreat.

If there is to be a study it must be impartial. We must not ask for taxpayers' money to pay for it. The proponents have boasted that not one dollar of taxpayers' money would be used.

It must pinpoint the area, it must show the proponents have rights to the land mass. There must be a detailed analysis of jobs to be created, how, when, how many; traffic to be generated on how many new roads, in addition to the approximate 500,000 flights the first year; water supply (airports use huge amounts), sewage, etc. What airlines are interested in becoming part of the hub, if any. In 1972, despite all the fanfare, not one airline was interested.

These concerns are only a few of the numerous considerations an honest study must examine. Since the last attempt to push through this jetport, there have been many state and federal laws and regulations to comply with.

We do need diversified economy

The untold thousands of the silent majority who still don't believe it can happen here must prod the Chambers into a realistic appraisal of the better proposals to improve the economy. How wonderful to read of business receiving assistance from the state — to companies that want to expand their local operations - Yardney Battery plant in Stonington, General Systems Solution in Groton, Pepe and Hogan in Old Saybrook, etc. — equaling $6 million of bonds to finance to diversification projects creating a broad base for the region. Then, the electric car converted from gas to electric power by former EB workers! And a projection to open such a plant in the Norwich-New London area. We don't need a nightmarish proposal that may take years and years —if ever — to give even one job to a ~~layed~~ laid off worker.

We do need and want a diversified healthy economy. Our state and federal representatives are working in that direction, especially Rep. Sam Gejdenson.

We also do need to listen to the wind and the songs of birds, the ripple of brooks and ponds, the quiet of a day in the woods, to soothe our stresses. We need artists to paint and musicians to play and create. We need to live with Nature and Man nurturing each other.

Mrs. Walton, of ~~Valentown~~ GRISWOLD, is a long-time opponent of the jetport concept.

Appendix GG

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University of Connecticut *
* Trinity College
* University of Hartford
University of New Haven

Connecticut Space Grant College Consortium

NATIONAL SPACE GRANT COLLEGE AND FELLOWSHIP PROGRAM
NASA

Consortium Office
Anne Pierce, Consortium Director
Pam Metzger, Program Administrator
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Industrial Advisory Board

Coltec Industries, Inc.
Connecticut General Assembly,
62nd District
Federal Aviation Admininstration
Hamilton Standard
Hughes, Danbury Optical
Naval Underwater Systems Ctr
Pratt & Whitney
Springborn Laboratories
United Technologies Research Ctr

August 3, 1992

Defense Conversion Commission
Suite 310
1825 K St., NW
Washington, DC 20006

Dear Sirs:

Enclosed is a copy of written material which we would like to include for consideration by the Commission in lieu of testimony. One of the roles of the Ct Space Grant College Consortium is to work with our industrial base to apply technologies developed for defense purposes to space related usage. The primary barrier in doing this is the retraining of the work force currently employed by Defense contractors. After some discussion with Directors of Space Grant Consortiums in other states we are convinced this is a national problem. The enclosed proposal from one of our prime contractors suggests a possible model for solving this problem if funds were available.

If there is any question or need for clarification, please call our office at 203-243-4849.

Sincerely,

Anne L. Pierce

Anne L. Pierce
Director

Enhancing Aerospace Manufacturing Leadership: A Partnership for the New Economy

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Course work	

ABSTRACT

The University of Hartford and United Technologies Corp. are proposing to initiate an educational partnership program between the aerospace industrial community and the members of the national Space Grant College Consortium program. Their goal is to enhance aerospace manufacturing leadership through the enrollment of employees as full time nontraditional students in accredited engineering degree programs.

The objectives of this partnership are to :

* Fill a national competitive need for engineers with practical manufacturing experience by upgrading the existing workforce to suppliment the limited number of new graduates available.
* Provide an individual career path opportunity for technical employees who require retraining in order to participate in the product and process changes which will occur as defense related orders decrease and innovation is emphasized to respond to the challenges posed by space flight and exploration.
* Identify employees, primarily women and minorities, who have proven their value to the company, been successful in company based training programs, but due to life circumstances have not had, and would not normally have the opportunity to achieve post-secondary education to a terminal degree.

PROJECT DESCRIPTION

Objectives and Expected Significance

The objectives of this partnership are to :

* Fill a national need for engineers with practical manufacturing experience.
* Provide an individual career path opportunity for technical employees who require retraining in order to participate in the product and process changes which will occur as defense related orders decrease and innovation is emphasized to respond to the challenges posed by space flight and exploration.
* Identify employees, primarily women and minorities, who have proven their value to the company, been successful in company based training programs, but due to life circumstances have not had, and would not normally have the opportunity to achieve post-secondary education to a terminal degree.

This project is unique in its significance to the National Space Grant College Consortium Program because it meets the three goals of this program exactly.

* To increase the understanding, assessment, development and utilization of space resources and provide a strong educational base.
* To promote partnerships and cooperation among universities, federal, state, and local governments, and aerospace related industries.
* To provide a university based network responsive to the nation's aerospace needs.

The Present Situation

Ten states have traditionally received the highest number of aerospace contracts: California, New York, Texas, Massachusetts, Missouri, Connecticut, Virginia, Florida, Maryland, and New Jersey. However, these have traditionally been defense related contracts.

* Defense oriented firms tend to have higher concentrations of engineers, scientists and technical personnel than civilian product-oriented firms.
* Most defense contractors with the exception of highly specialized producers (Electric Boat) have some level of non-defense oriented production.

With the U.S. Defense Department budget continuing to cut back on new flight systems, corporations are increasingly competing for the much smaller contracts offered by civilian carriers and NASA. The increasing competition in this smaller arena means that companies are forced to become more innovative and cost effective, relying on an increasingly more skilled workforce. Yet, they wish to avoid layoffs due to automation or downsizing.

The Human Resources strategy outlined in NASA's strategic plan, "Vision 2000", states that "NASA must effectively use all its educational, personnel and training resources to field the strongest possible team... to attract, develop, and maintain a world-class workforce."
The education component has been directed at the traditional precollege and university student. Yet the educational community recognizes that learning doesn't stop when someone becomes employed, and the training programs of a single company cannot match the comprehensive experience of a college education, where the more informal atmosphere encourages inquiry, and collaboration.

Previous Projects

Previous projects for nontraditional students have been focussed either on the unemployed, or on company efforts to train employees for specific tasks through apprenticeship programs. These efforts have obvious weaknesses:

* The method of instruction is task focussed therefore the student has no chance for exploration of concepts;
* There is little or no support in the form of tutorials, daycare, family or career counseling;
* The skills acquired are usually not transferrable between the manufacturing and research environment, or between industries.

Projects in Progress Elsewhere

To our knowledge there is no organized effort in progress elsewhere directed at formally enhancing the manufacturing workforce in the aerospace community. The closest programs are the NASA Undergraduate & Graduate Student Researchers Programs which partially support tuition while the student is in college and provide internships during the summer at NASA and contractor facilities. These programs have an under-represented minority focus, however, there is no guarantee that these students will pursue manufacturing careers - the need now!!

General Plan of Work

Project Period: July 1, 1993 - June 30, 1997

We envision a three phase project:

PHASE I: July 1, 1993 - June 30, 1995

July 1 - Sept 1,1993: Original Equipment Manufacturers (OEM) across the nation need to clearly define the number of employees who would benefit from achieving engineering degrees in manufacturing disciplines, and match the profiles of these employees with the admission requirements of bachelor degree programs. NASA and other federal agencies should take the lead in matching the industrial partners with the appropriate Space Grant Consortium partners, and provide the same level of support as in the already established NASA Undergraduate and Graduate Student Researcher programs.

Sept 1, 1993 - May 30, 1994: The first class of participants enter their respective degree programs as full-time students maintaining their company salary and benefits. They are matched to faculty mentors who act as their academic advisors and monitor their progress. Student Services support staff at each institution are identified to interface with the participants on a monthly basis for referral to tutoring or counseling services.

May 30 - August 30, 1994: Participants would return to their regular company assignments, meeting once a month with the educational institution's program director to discuss the impact of their educational experience on their job performance. The institution's project staff would

meet with their corporate counterparts to discuss problems and preparations for the second class of participants.

Sept. 1, 1994 - May 30, 1995: Second class enters their degree programs and are assigned to members of the first class who are able to act as peer tutors.

May 30 - July 1,1995: The first class will graduate and the entire process is assessed in preparation for the entrance of new participants and sponsors.

PHASE II: July 1, 1995 - June 30, 1997

Suppliers and other preferred vendors would be encouraged to participate in the project as strategic partners. State departments of economic development, labor, and education should be encouraged through federal incentives to participate, particularly with tuition and other financial aid support.

Selection of Participants

All employees selected by their Human Resources departments to participate must meet the same entrance requirements as other prospective students. Those who have no previous college experience must take a series of math and english tests to determine their placement. Employees who are graduates of most corporate apprenticeship programs can probably qualify at the sophomore level as transfer students, however, this should be discussed with the appropriate academic department chair. (See Appendix for current Admission standards at University of Hartford).

Course Work to be Undertaken:

The following degree programs are eligible: BSME- Manufacturing, BSEE, and BSME. See University of Hartford sample course sheets in the Appendix.

Support Services Available

Since the majority of the nontraditional students will be women, special efforts will be made to ensure that their faculty advisors are women, and that daycare and family counseling services are available. Extended hours for tutorial services will be provided. The Project Director which may be Engineering Student Services staff or a designated faculty member will be responsible for all reporting requirements including gathering student data, making referrals, interacting with corporate sponsors, and training faculty advisors as mentors.

Key to success is the development of the faculty mentor/student relationship. Faculty will be required to meet with their student at least once a month - unusual since most faculty only see advisees before a registration period. In addition, these mentors will be required to develop cultural sensitivity and "buy in to" the rationale for the program. They will be expected to guide the student as they initiate project work requirements for graduation and to take an active interest in the advisee's career development.

Maintenance of Relationship with the Corporation

If the aerospace industrial community is to be a true partner, they must participate in all phases - not simply financially. They must keep the educational institution's criteria in mind when screening applicants to the program. They must provide an advisory board which encompasses the human resource department and the specific manufacturing areas from where the participants are drawn so that open communication exists. This advisory board should meet each semester with the faculty advisors and the program director on each campus so that progress is assessed in a timely fashion. During the summer the advisory board will be responsible for ensuring that the employee is able to fit back into the work environment after nine months of such a different performance standard.

All corporate participants will be expected to continue the employees' salary and benefits and to include the student performance as part of the salary review process. Students will be required to maintain a "B" or better to remain in the program. Upon graduation, the Advisory Board will work with the student to discuss an appropriate placement in line with the new competencies and an individual career path which encourages the employee to remain with the employer as a valued member of the workforce.

Special Capabilities of the Space Grant College Consortium Network

* Responsive to the goals of the local aerospace community & NASA

NASA already spends $511 million on education and research in U.S. colleges and universities - $2.03 per U.S. citizen - shouldn't the citizens receive more direct benefit?. Why not extend this network's reach to include those persons who have already shown their interest in manufacturing in the aerospace environment and their motivation to gain skills that will allow their company to move more competitively into the next century?

* Personnel

The National Space Grant College Consortium network already is composed of the majority of ABET accredited engineering programs in the nation. The degree programs are already in place, as are the majority of student services necessary to carry out the project. While the faculty are already familiar with the academic requirements, some of them will need to be made more aware of today's manufacturing needs and will need to become more responsive to the needs of the nontraditional student. Utilizing this network to initiate this program will save on marketing costs. These colleges are already familiar with the NASA model for the Undergraduate and Graduate Researchers Program.

* Facilities

No new facilities will be needed for this project. However, due to the need for daycare, and the lack of it on many campuses, some accommodation for this will need to be made.

Budget for each Consortium

Year I 7/1/93 - 6/30/94

	NASA	Corporate	University
Salaries			
Program Director			5,000
Faculty Mentor Salary Pool ($350/semester/faculty member) one faculty member /10 participants 700 x 3 =2100	2,100		
Clerical 8.00/hr x 10 hrs/wk x 24 wks = 1920	1,920		
Support Personnel			
Tutors 8.00/hr x 20 hrs/wk x 20 wks x 3 tutors = 9600	9,600		
Counselors $10,000 x 2 for 12 mo. part-time positions = 20,000	20,000		
Fringe Benefits			
According to University policy fringe benefits are calculated at 28.38% for full-time and 8.72% for part-time: 2120 x 28.38% = 602 29600 x 8.72% = 2581	3,183		
Expendable Materials & Supplies for training mentors and follow-up on participants: 5,000	5,000		
Services			
Participant Support			
Tuition: Assume 15 students will be at private colleges ave.20,000/ student x 15 students=300,000	150,000	75,000	75,000
Assume 15 students will be at public colleges ave. 10,000/student x 15 students = 150,000	150,000		
Salary & employee benefits		salary & benefits	
Books & Fees: ave. 800/student x 30 students=24,000	24,000		

	NASA	Corporate	University
Travel or program director and faculty mentors to corporate work sites and to one Consortium conference per year with NASA education division personnel and other national program personnel:1,000/person x 4 persons: 4,000	4,000		
Total Direct Costs	369,803	75,000 plus salary & employee benefits	80,000
Indirect Costs At the Ct Space Grant Consortium: 71.08% of salary & wages= 33,620 x 71.08% = 23,897	23,897		
TOTAL COSTS	393,700	75,000	80,000

REQUIREMENTS FOR ADMISSIONS

A candidate for admission to the University of Hartford must be a graduate of, or student who will be graduated from, an accredited secondary school, or must have passed a state secondary school equivalency examination.

For admission to the College of Engineering, 16 units of secondary subjects are expected; these should include the following:

English	4 units
Social Studies	2 units
One language	2 units
laboratory science (Chemistry and Physics are strongly recommended)	2 units
Mathematics These must include the following specific units: algebra, 2 units; plane geometry, 1 unit; trigonometry, 1/2 unit	3 1/2 units
Other academic subjects	2 1/2 units

Additional units are recommended in elective courses such as calculus or pre-calculus, computer programming, mechanical drawing, and industrial arts.

UNIVERSITY OF HARTFORD
COLLEGE OF ENGINEERING

Mechanical Engineering Department

Typical MECHANICAL ENGINEERING Student Program
1991-92 Bulletin BSME Degree Requirements

	FALL				SPRING		
Freshman							
M	144	Calculus I	4	M	145	Calculus II	
PHY	112	College Physics I	4	PHY	113	College Physics II	
ENG	110	English Composition	3	ES	110	Statics	
ES	114	Intro to Engineering	1	ES	115	Computer Programming	
ES	220	Graphic Communication	3	MIS	110	Intro to Computer	
AUCW	180	The Humanities*	3			AUC Elective*	
			18				
Sophomore							
CH	110	College Chemistry	4	CH	111	College Chemistry	
ES	211	Dynamics	3	ES	212	Mechanics of Materials	
M	240	Calculus of Several Variables	4	ME	213	Mech of Materials Lab	
		Hum/Soc Sci Elective*	3	ME	221	Descriptive Geometry/ Computer Graphics	
		AUC Elective*	3	ME	236	Thermodynamics I	
				M	242	Differential Equations	
			17				
Junior							
ME	337	Thermodynamics II	3	ME	341	Heat Transfer	
ME	340	Fluid Mechanics	3	ME	342	Fluids & Heat Lab	
ME	370	Elements of Mech Design	3	ME	470	Mechanical Design	
M	244	Adv Engineering Math	3	ME	350	Vibrations I	
EE	210	Intro to Electrical Engineering	3	EE	360	Circuits & Electronics	
		AUC Elective*	3				
			18				
Senior							
ES	440	Automatic Control System Analysis	3	EE	470	Electrical Engergy Conversion	
ME	460	Engineering Acoustics	3			or	
ME	472	ME Project Lab	3	PHY	220	Digital Electronics	
PHY	250	Material Science	3			Hum/Soc Sci Elective*	
		Professional Elective**	3			Professional Elective*	
		Professional Elective**	3			Professional Elective*	
						Professional Elective*	
			18				15 o

Total Credits 136 or

Notes: (See reverse side)

Notes:

* All-University Curriculum (AUC) Requirements (12 Credits)

AUCW 180 A Western Heritage: The Humanities

One course elected from each of the following categories:

AUCC XXX Living in a Cultural Context--Other Cultures
AUCA XXX Living with the Arts
AUCS XXX Living in a Social Context, AUCS 340, Ethics: The Professions, is preferred.

* Humanities/Social Science (Hum/Soc Sci) Requirements (6 Credits)

Humanities electives normally include art history, communicat (other than applied courses), literature, foreign languages, philosophy. The Social Sciences are economics, history, linguisti political science, psychology, and sociology.

Electives shall be chosen with particular goals in mind and with approval of the students faculty advisor. Random choice of courses meet credit requirements is discouraged. Of particular value elective sequences leading to greater depth and under-standing o particular field or specialty.

The ABET requirement for a planned program providing both breadt depth may be satisfied by selecting course groupings ("clusters possibly in conjunction with AUC courses. Students (transfer stude included) should consult with their faculty advisor.

** Professional Electives (15 Credits)

Professional electives are normally in the fields of engineeri physics, chemistry, biology, and advanced mathematics. At leas credits shall be courses chosen from the following list of ME des professional electives:

ES 441 Automatic Control System Design [3]
ES 493 Engineering Research (Design Oriented) [3]
ME 352 Applied Kinematic Design [3]
ME 430 Heating, Air Conditioning, and Refrigeration [3]
ME 432 Energy Conversion System Design [3]
ME 433 Solar Energy Design [3]
ME 435 Nuclaear Energy Design [3]
ME 453 Kinematic Linkage Design [3]
ME 461 Noise Control Design [3]
ME 471 Mechanical Engineering Design [3]
ME 473 Mechanical Engineering Laboratory Projects II [3]
ME 475 Manufacturing Project Laboratory [3]
ME 476 Computer Aided Design [3]

For additional information, contact Dr. E.B. Gardow, Chairman ME Departme (203) 243-4852.

UNIVERSITY OF HARTFORD
COLLEGE OF ENGINEERING

Department of Electrical Engineering
Typical ELECTRICAL ENGINEERING Student Program
1991-92 Bulletin Degree Requirements

FALL				SPRING		
Freshman						
ENG	110	Composition I	3	MIS	110	Intro to Computers
ES	114	Intro to Engineering	1	ES	110	Statics
ES	220	Graphic Communication	3	ES	115	Computer Programming
M	144	Calculus I	4	M	145	Calculus II
PHY	112	College Physics I	4	PHY	113	College Physics II
AUCW	180	The Humanities*	3			AUC Elective*
		or				or
		AUC Elective*		AUCW	180	The Humanities*
			18			
Sophomore						
CH	110	College Chemistry	4	CH	111	College Chemistry
EE	213	Elec Circuit Anal I	4	EE	214	Elec Circuit Anal II
ES	211	Dynamics	3	M	240	Calculus of Several Va
EE	231	Digital System Logic	4	ME	236	Thermodynamics I
M	242	Differential Equations	3	PHY	250	Materials Science
			18			
Junior						
EE	332	Intro to Microprocessors	3	EE	333	Microprocessor Applications
EE	351	Electromagnetic Field Theory	4	EE	341	Discrete & Continuous Systems
EE	361	Electronics Fundamentals	4	EE	352	Electromagnetic Transmission and Radiation
M	244	Adv Engineering Math	3	EE	362	Electronic Circuits
		AUC Elective*	3			AUC Elective*
			17			
Senior						
EE	420	Random Signals & Noise	3	EE	521	Communications Theory
EE	442	Continuous Control Syst	4			or
EE	471	Electrical Machinery	4	EE	423	Communication Eng'g
PHY	310	Modern Physics	3			Professional Elective**
		Professional Elective**	3			Professional Elective**
						Hum/Soc Sci Electives*
			17			15 o

* Notes: See reverse side
**

Notes:

* All-University Curriculum (AUC) Requirements (12 Credits)

AUCW 180 A Western Heritage: The Humanities

One course elected from each of the following categories:

AUCC XXX Living in a Cultural Context--Other Cultures
AUCA XXX Living with the Arts
AUCS XXX Living in a Social Context, AUCS 340, Ethics: The Professions, is preferred.

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** Professional Electives (15 Credits)

Professional electives are normally in the fields of engineeri physics, chemistry, biology, and advanced mathematics. At leas credits shall be courses chosen from the following list of ME des professional electives:

ME 352 Kinematic Design [3]
ME 430 Heating, Air Conditioning, & Refrigeration [3]
ME 432 Energy Conversion System Design [3]
ME 433 Solar Energy Design [3]
ME 453 Kinematic Linkage Design [3]
ME 471 Mechanical Engineering Design [3]
ME 473 ME Laboratory Projects II [3]
ES 441 Automatic Control System Design [3]

For additional information, contact Dr. E.B. Gardow, Chairman ME Departme (203) 243-4852.

UNIVERSITY OF HARTFORD
COLLEGE OF ENGINEERING

Mechanical Engineering Department

Typical MECHANICAL ENGINEERING Student Program (Manufacturing Option
1991-92 Bulletin BSME Degree Requirements

	FALL				SPRING		
Freshman							
M	144	Calculus I	4	M	145	Calculus II	
PHY	112	College Physics I	4	PHY	113	College Physics II	
ENG	110	English Composition	3	ES	110	Statics	
ES	114	Intro to Engineering	1	ES	115	Computer Programming	
ES	220	Graphic Communication	3	MIS	110	Intro to Computer	
AUCW	180	The Humanities*	3			AUC Elective*	
			18				
Sophomore							
CH	110	College Chemistry	4	CH	111	College Chemistry	
ES	211	Dynamics	3	ES	212	Mechanics of Materials	
M	240	Calculus of Several Variables	4	ME	213	Mech of Materials Lab	
				ME	221	Descriptive Geometry/ Computer Graphics	
		Hum/Soc Sci Elective*	3				
		AUC Elective*	3	ME	236	Thermodynamics I	
				M	242	Differential Equations	
			17				
Junior							
ME	381	Stat Quality Control	3	ME	341	Heat Transfer	
ME	340	Fluid Mechanics	3	ME	280	Manufacturing Processe	
ME	370	Elements of Mech Design	3	ME	470	Mechanical Design	
M	244	Adv Engineering Math	3	ME	350	Vibrations I	
EE	210	Intro to Electrical Engineering	3	EE	360	Circuits & Electronics	
				PHY	250	Material Science	
		AUC Elective*	3				
			18				
Senior							
ES	440	Automatic Control System Analysis	3	PHY	220	Digital Electronics	
				ME	411	Advanced Materials	
ME	383	Mfg. Control & Planning	3	ME	480	Manufacturing Seminar	
ME	410	Mechanical Metallurgy	3			Hum/Soc Sci Elective*	
ME	475	Mfg. Project Lab	3			Professional Elective*	
ME	476	Computer Aidied Design	3				
			15				15 c

Total Credits 136 or

Notes: (See reverse side)

Notes:

* All-University Curriculum (AUC) Requirements (12 Credits)

AUCW 180 A Western Heritage: The Humanities

One course elected from each of the following categories:

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AUCA XXX Living with the Arts
AUCS XXX Living in a Social Context, AUCS 340, Ethics: The Professions, is preferred.

* Humanities/Social Science (Hum/Soc Sci) Requirements (6 Credits)

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** Professional Electives (15 Credits)

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ME 352 Kinematic Design [3]
ME 430 Heating, Air Conditioning, & Refrigeration [3]
ME 432 Energy Conversion System Design [3]
ME 433 Solar Energy Design [3]
ME 453 Kinematic Linkage Design [3]
ME 471 Mechanical Engineering Design [3]
ME 473 ME Laboratory Projects II [3]
ES 441 Automatic Control System Design [3]

For additional information, contact Dr. E.B. Gardow, Chairman ME Departme (203) 243-4852.

CONNECTICUT
MUNICIPAL ELECTRIC
ENERGY COOPERATIVE

CMEEC

30 Stott Avenue
Norwich, CT 06360-1526
203-889-4088 Fax 203-889-8158

September 4, 1992

Defense Conversion Commission
U.S. Department of Defense
1825 K Street NW, Room 310
Washington DC 20006
Attention: Andy Porth

Gentlemen:

Submitted herewith is the written testimony of the Connecticut Municipal Electric Energy Cooperative (CMEEC) to be entered into the record of Defense Conversion Commission hearings in Groton, Connecticut on September 16-17, 1992. I will appreciate receiving confirmation from you that our comments have been made an official part of the record.

The CMEEC Board of Directors appreciates the efforts of your Commission in facilitating the vitally-important conversion and diversification of the defense industry in New England. Our organization represents community-owned and operated electric utilities in Groton, Norwich, Jewett City, East Norwalk, and South Norwalk serving some 90,000 consumers, all of whom are touched in some way by the economic effects of defense cutbacks.

The immediate task in 1992-93 is to help our Members establish new business customers in southeast Connecticut and make the proper connections to move ahead with urgently-needed transfer of state-of-the art technologies. We feel that technological advances growing from the defense industry should be made available for new consumer alternatives, especially in the fields of energy and transportation. We are therefore gratified that the Defense Department has taken the initiative to hold public hearings which can define better ways for such conversions to be expedited. Thank you.

Sincerely,

Maurice R. Scully
Executive Director

MS/RN/gts
Enclosure

cc: Connecticut Congressional Delegation

CONNECTICUT
MUNICIPAL ELECTRIC
ENERGY COOPERATIVE

CMEEC

30 Stott Avenue
Norwich, CT 06360-1526
203-889-4088 Fax 203-889-8158

WRITTEN STATEMENT OF
CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE
Borough of Jewett City Electric Light Plant
City of Groton Department of Utilities
City of Norwich Department of Public Utilities
Norwalk Second Taxing District - South Norwalk Electric Works
Norwalk Third Taxing District Electrical Department

Submitted September 4, 1992

U.S. Department of Defense
DEFENSE CONVERSION COMMISSION

PUBLIC HEARING
Groton, Connecticut
September 16-17, 1992

For the Hearing Record

ACTION FOR NEW BUSINESS INCUBATORS
USING SUBMARINE & OTHER DEFENSE TECHNOLOGIES
TO DEVELOP AND IMPROVE PUBLIC USE OF
FUEL CELL, ELECTRIC VEHICLE & ALTERNATIVE ENERGY SYSTEMS

INTRODUCTION

Thank you, Mr. Chairman and Committee members, for this opportunity to present to your panel the written views of Connecticut's municipal electric distribution utilities and their power supply agency, the Connecticut Municipal Electric Energy Cooperative (or "CMEEC").

Our municipal utilities share the major regional -- and Congressional -- concerns about negative impacts of defense-industry reductions on Connecticut communities. CMEEC supplies electric power to utilities serving over 90,000 citizens in Groton, Norwich, Jewett City, and East and South Norwalk, Connecticut. Officials of those utilities direct the not-for-profit operations of CMEEC.

Our largest customers are in southeastern Connecticut. The contract reductions and employment losses at General Dynamics-Electric Boat Division in Groton (EB), with related contractor cutbacks in the region, are a major concern both in our electric system planning and in our efforts to improve the area's economic well-being.

Connecticut is at or near the top of the list in measuring the number of American jobs lost to defense-related cutbacks. As a result, we have rapidly joined local alliances formed in 1991-92 to cope with effects of past and planned military industry reductions. These alliances see the absolute need for quick and effective diversification of defense business into new industries and enterprises, large and small. Restoring employment losses is central to a change from a defense-oriented to a new high-tech civilian economy.

CMEEC has helped establish a working consortium which includes EB as the area's major defense contractor. The group includes SEATECH (the Southeastern Area Technology Center), the Connecticut Regional Economic Development coalition, the Department of Labor's Private Industry Council, Technology for Connecticut (TECHCONN), and representatives of area communities.

CONVERSION AND THE NEED FOR EFFECTIVE TECHNOLOGY TRANSFER

On behalf of municipal Members, CMEEC is helping train displaced workers, test technology, lay groundwork for commercial ventures, and assure that costly research is transferred and conducted effectively.

Combining our resources with those of private industry, government, and academic institutions, the target is building a new economic base for southeastern Connecticut which replaces

<u>losses in defense/military employment with a new infrastructure of diversified businesses centering on emerging technologies.</u>

In the process, it is imperative that significant defense technology be diverted quickly to non-defense uses to provide new commercial and societal benefits. Such advanced research and development must be viewed as "core" technology needed to fuel new job-producing alternatives.

Technological advances in defense electronics and component miniaturization, for example, were developed with public funds for public purposes--some for defense, some for the aerospace industry. As defense uses decline, it is apparent that somehow the resulting benefits must flow to American consumers who have paid and will continue to pay for advanced government-sponsored research and development.

Advanced core technologies can provide positive impacts on activities in the current CMEEC program:

- We are helping fund an ambitious project which is converting six gasoline-powered utility vehicles to electric power for daily utility use, thereby providing electric vehicle performance and emissions data. In the project, CMEEC facilitated the training of 30 laid-off Electric Boat workers in the conversion technology.

- We are investigating conversion of other transportation systems -- such as diesel bus fleets -- to use compressed natural gas as fuel, with attendant fuel and emission savings.

- We are looking at uses of phosphoric acid and molten carbonate fuel cells, for mobile production of energy.

- We are participating with TECHCONN in development of anaerobic digesters to produce methane from municipal and agricultural waste and seaweed to be used with fuel cells to produce electricity.

In relation to electric vehicle conversions, CMEEC and other partners in the consortium are exploring direct applications of submarine and torpedo technology to electric or hybrid-electric vehicles. We are studying new technological applications for mass transportation systems and infrastructure.

We have been working in close coordination with Solar Car Corporation of Melbourne, Florida, manufacturers of electric vehicle conversion components. Solar Car is taking positive and public steps to locate production facilities in this area and build a full range of electric vehicles and components. The facilities hold potential for a growing workforce.

Our successful initial demonstrations of electric-vehicle conversions and their training potential has led to recognition of a pressing need for lighter components and advanced electronic controllers, which are among a list of possible applications for new technology. Meetings between CMEEC, the Solar Car group, local economic development officials, the state of Connecticut, and -- most importantly -- TECHCONN, *emphasize close links between electrified vehicles and submarine electric propulsion systems, electronic control systems, torpedo guidance and battery and capacitor technology developed through EB and similar contractors in federally-funded defense research.*

The major need at this juncture, which we hope your Committee, the Administration, and the Congress can help provide, *is official endorsement of the transfer of non-secret technologies to the active group of entrepreneurs determined to*

press forward with, for example, a large-scale electric vehicle infrastructure in this area in the next five years.

In the West, California has led in the incubation of businesses to meet such goals. CMEEC, its Members, the local governments, and developers in southeastern Connecticut are determined that we can lead this process in the East, since we're well along the way.

ENERGY POLICY AND TECHNOLOGY TRANSFER

An over-riding factor affecting the future of electric power supply and the better definition of efficient uses of electricity is the continuing lack of a focused and comprehensive long-term national energy policy. The void has brought with it a degree of paralysis in energy matters.

We believe the defense industry reductions of the 90s provide a new impetus for improved energy utilization. Again, effective transfer of technology from the defense sector to the private and public domain is part of the equation.

The Clean Air Act Amendments of 1990 bring to all parts of the nation a new demand for zero-emission or low-emission vehicles to play their important role in reducing carbon-based pollution on the roads. We feel that electric and natural gas vehicles will to meet a portion of that demand, since the Northeast faces regulatory mandates requiring significant reductions in emissions over the coming ten years.

Major automobile companies in Detroit are expending millions of dollars to bring electric vehicles into service in the mid-90s. However, we are convinced that the major national drive toward effective electric vehicle development is already underway. This effort is moving at a faster and perhaps more

effective pace than the work done by companies whose major business is building conventional gasoline engine automobiles. It is small entrepreneurs such as Solar Car Corporation, banding together with others to share in virtually home-grown advances, *who are keeping costs down and getting more demonstration vehicles on the road in a shorter time.*

Experience thus far -- including demonstrations undertaken in Connecticut and Massachusetts -- leaves little doubt as to the viability of the approach used by the small entrepreneur. It also provides practical evidence that electric and hybrid-electric vehicles need better access to advanced technologies to make efficient new systems quickly available to American consumers. A key to a revitalized economy is to provide such access to achieve lower cost, non-polluting clean transportation through research, development, a viable pool of technological capabilities, and new production techniques.

The nuclear power industry -- developed by the federal government and commercialized after World War II -- suffered from what many feel was a mis-handling of technology transfer. Nuclear generating systems, the direct result of publicly funded wartime federal research, were released for licensing before federal oversight could standardize reactor design. Reactor designs proliferated, increasing the potential for operating problems down the road.

While nuclear power has helped meet national energy needs, the industry has been plagued for thirty years by cost overruns and expensive outages, troubles which effectively stopped construction of new nuclear generating units. In some quarters, it is felt that failures could have been forestalled if government-financed nuclear technology had been standardized into smaller units before it was released to developers. The trend

today has come full circle, with calls for national adoption of federal guidelines for smaller standardized nuclear power plants.

It may be that federal involvement is imperative, to facilitate voluntary cooperation or, in the alternative, to exert authority to impose proper regulations and controls on the transfer of defense-related technology to peacetime purposes. The lack of such clearcut procedures leaves major questions unanswered at a time when both public and private sectors move to convert defense industry to uses with greater benefits for consumers.

The economic environment affecting energy decisions and energy policy has altered significantly in the 1990s. We have moved away from national solutions to power problems and more toward regional actions. The Connecticut municipal utilities are taking integrated regional steps in a focus on economic development. We feel strongly that responsive involvement by local, state, and federal governments is additionally needed to act on major public policy issues dealing with energy and its uses.

Government must continually re-evaluate its activities in light of public need. We believe the need at this time is for utilities, regulators, and government alike to look hard at how we can convert non-essential defense-related technology into the core and backbone of new employment and new industrial revitalization. Government, with the private sector, can take the lead to assure that benefits flowing from the technology will reach the ultimate consumer.

CONCLUSION

This period in Connecticut represents a bringing-together of forces favoring new energy-related business ventures. In 1992-

93, Connecticut is being called upon to establish transportation and other systems to combat growing pollution of the atmosphere. We are at the center of an area committed to high technology. Connecticut has a skilled labor force, under pressure of cutbacks but still intact. There is new emphasis at the state level on business development. The state and local economy is primed for jobs and industry to aid in recovery.

The municipal utilities of Connecticut are committed to meeting needs of local consumers and using energy effectively. They are also committed to deriving public benefits from the converging forces now affecting the region. The federal government as represented by your Commission can either aid or deter the process.

We therefore call for immediate affirmative action at the national level to facilitate the transfer of defense technology to energy use developers like TECHCONN, Solar Car Corporation, and CMEEC. *These and other budding joint action developers can transform state of the art technology into efficient non-defense consumer-driven products.*

Effective technology transfer is a major part of the equation. Additionally, high priority must go to workable and non-regressive emission controls, regulatory common-sense on new technologies affecting transportation and the national infrastructure, a balanced region by region approach to environmental protection and improvement, and cutting edge improvements in the generation of electric power which stem from government research.

These are elements of a clear and sensible national energy policy which can re-direct expenditures away from strict military/defense uses toward technology which can revitalize the American economy.

Connecticut Municipal Electric Energy Cooperative
September 4, 1992

DEFENSE-ORIENTED COMPONENTS IN SUPPORT OF ELECTRIC VEHICLES

The following is an overview list of new or emerging technologies which may have been advanced by the defense industry and which are of interest to developers of electric and hybrid-electric vehicles. This list is meant to be a preliminary identification of U.S. defense technology which can prove useful if transferred to accelerate development and applications in new solar/electric transportation systems.

1. "Ultra capacitors" and "super capacitors" approaching star-wars-class advanced power density ratios to be utilized for battery load leveling during peak power load (high motor torque - acceleration conditions) as well as for lightweight energy storage capability.

2. Solar panels: durable, light-weight, moderate cost, which demonstrate a high energy transformation percentage.

3. Battery discharge level indicators (gauges) (amp/hour meters) which measure energy flow so as to accurately indicate remaining battery capacity (state of battery charge).

4. Lithium storage battery technology and research developed through the defense industry to power satellite communication transmissions. Interest is in application of lithium battery technology to electric vehicles, as primary or secondary power sources.

5. High efficiency, high RPM, light-weight, three phase Alternating Current (AC) induction motors in the 50 to 150 horsepower range capable of mobile applications.

6. High efficiency AC inverters to couple to the AC motor above, thereby forming the electronic control for the motor.

7. High Voltage, high-efficiency, lightweight, high RPM brushless Direct Current (DC) motors in the 25-75 horsepower range capable of mobile applications. Three-phase DC motor technology is also needed.

8. Technology related to multiple motor (two to four) systems utilizing a single electronic controller. These motors may be in the 125-250 horsepower range (in totality) capable of mobile applications.

9. High rate mosfet (or more advanced control type) battery charges (120 volt to 440 volt AC single or three-phase input with output of rectified DC at 150 volt to 450 volt).

10. Ultra-lightweight, durable, fire resistant materials technology suitable for automotive chassis and body design

11. Hydrogen fuel cell technology as it may be applied to charging stations (stationary use) and, later, mobile use (buses, vans, and trucks).

12. Adjunct photovoltaic technology, for both mobile and stationary applications.

Columbia University in the City of New York | *New York, N.Y. 10027-6699*

DEPARTMENT OF INDUSTRIAL ENGINEERING
AND OPERATIONS RESEARCH

Seeley W Mudd Building

September 15, 1992

Ms. Sally Hartwig
Executive Director
Department of Defense
Defense Conversion Commission
1825 K Street NW, Suite 310
Washington, DC 20006

Dear Ms. Hartwig,

Thank you for your letter of September 1, 1992.

I am pleased to assist your commission in accumulating data and analysis that bears closely on the economic conversion task for American military industry bases and laboratories. Accordingly, I enclosed the following materials as prepared statement for the meeting of your commission in Groton, Connecticut.

1. New York Times, "Shaping a Civilian Economy," February 27, 1992.

2. "Swords into Plowshares : Converting from Military to Civilian Production," *Technology Review*, January, 1986.

3. Summary of Defense Economic Adjustment Act (H.R. 441).

4. Full text of Defense Economic Adjustment Act.

5. Criteria for Economic Conversion Legislation.

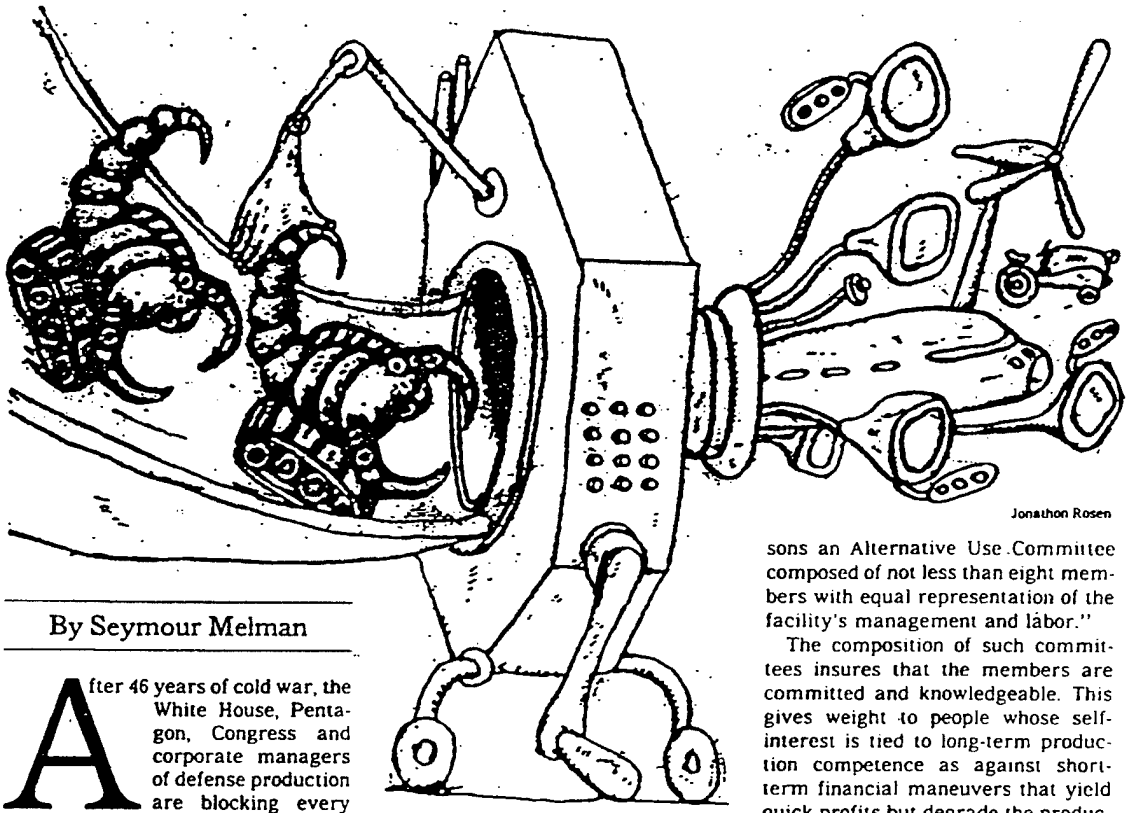
I hope these materials can be of help to your commission.

Sincerely,

Seymour Melman
Professor Emeritus
Industrial Engineering

E NEW YORK TIMES **OP-ED** THURSDAY, FEBRUARY 27, 1992

Shaping a Civilian Economy



Jonathon Rosen

By Seymour Melman

After 46 years of cold war, the White House, Pentagon, Congress and corporate managers of defense production are blocking every proposal for planning conversion to a civilian economy. Federal and corporate managers fear a loss of decision-making power. Congress fears the disruption of political arrangements that enable members to bring income and jobs to their constituents.

This avoidance of planning for conversion blocks debate on the policy and finances needed to repair America's industry and infrastructure.

Major contractors like General Dynamics, Lockheed and United Technologies have begun large-scale layoffs. United is cutting its workforce by 14,000, with 6,400 from its Connecticut plants. The company's jet engine orders dropped from 700 in 1982 to 50 this year. Over the next six years, under President Bush's plans, 1.3 million people will lose jobs in defense industry and the military services.

At the close of World War II, U.S. planning for "reconversion" to a civilian economy was already in place. On April 28, 1943, David Prince, a General Electric vice president, wrote the War Production Board, "The very least time during which a new product can be conceived, models made and tested and pilot plant production initiated is of the order of two years." With only a few months' notice of the war's end, he said, "We will find ourselves with a great many people whom we would like to put to work." This would be delayed two years "unless some . . . preliminary steps are taken." They were. Planning for reconversion was made national policy as companies, unions and government named officials to spur the program. For most companies, reconversion meant resuming the work interrupted by the war.

Military cuts call for a plan, not a polemic.

During the cold war, corporate and Federal defense managers and engineers trained in the Pentagon's cost-maximizing practices, the obverse of industrial efficiency. For them conversion means an end to subsidies as well as retraining for unfamiliar cost-minimizing skills and the technologies of civilian products.

Conversion requires essential preparations: the planning must be ordered by law, done in advance and done locally in each defense factory, laboratory and military base.

The cornerstone of the comprehensive conversion law proposed by Representative Ted Weiss, Democrat of New York, is this provision: "There shall be established at every defense facility employing at least 100 persons an Alternative Use Committee composed of not less than eight members with equal representation of the facility's management and labor."

The composition of such committees insures that the members are committed and knowledgeable. This gives weight to people whose self-interest is tied to long-term production competence as against short-term financial maneuvers that yield quick profits but degrade the production competence of an industry.

David Prince's judgment that planning must be done in advance is confirmed by ordinary industrial experience. This involves selecting new products, estimating their market, retraining employees, altering the organization of production and redesigning plant facilities.

Bases are convertible to industrial parks, schools, hospitals, airports and recreational facilities. In military laboratories, the scientific staffs must match their knowledge with society's technological needs like renewable energy resources and preventing pollution. The first-hand knowledge possessed by defense company employees is essential for conversion. Thus, conversion must be done locally; no remote central office can possess the necessary knowledge of people, facilities and surroundings.

What can converted factories produce? Products we now buy abroad such as machine tools, electric locomotives, farm machinery, oilfield equipment and consumer electronics. Besides, the modernizing of America's infrastructure will require construction machinery and capital goods of many kinds.

In sum, conversion is crucial to creating a full-employment, productive U.S. economy. □

Seymour Melman is chairman of the National Commission for Economic Conversion and Disarmament.

SWORDS INTO PLOWSHARES

Converting from Military to Civilian Production

BY SEYMOUR MELMAN

On July 24, 1985, the General Dynamics Corp. announced that it would close its 100-year-old Quincy, Mass., shipyard and lay off 3,600 shipbuilders. The Department of Defense had indicated that it would offer the yard no new contracts, and even the state's influential members of Congress had been unable to persuade the navy to place new orders with the plant. Although the closing had been a distinct possibility for at least two years, neither the company's management nor the union had planned for this outcome. Nor had city, state, and federal officials, who showed the typical panicked response: they decided to form a committee within 30 to 90 days to decide what to do. Such an ad hoc committee would not be able to plan effectively for converting the facility to make ships or other products for the civilian market, as such planning requires one to two years. Predictably, the committee has since decided to look for an outside firm to turn the site into an industrial park of vague composition and proportions. The yard's skilled workers, engineers, and managers will undoubtedly scatter to the winds.

The Quincy debacle is but one incident in the long history of convulsions in the industries that serve the military—this one occurring even in the midst of the Reagan administration's arms buildup. Ford Aerospace laid off 2,500 workers in September 1985 when the Pentagon canceled further production of the notoriously ineffective Sgt. York mobile anti-aircraft cannon. Rockwell International dismissed thousands of blue-collar workers and engineers from its Los Angeles plant in the late 1970s when President Carter decided to produce cruise missiles instead of B-1 bombers. And 9,000 workers lost their jobs when the New York Naval Shipyard in Brooklyn shut down in the 1960s.

Most economists downplay the local and regional effects of these events, seeing them as mere bubbles in a big pond. However, the millions of engineers and production workers in the "Quincies" across the United States perceive these outcomes as chilling. They live in constant fear that the Pentagon will terminate their contracts, whether because of a shift in strategy, altered weapons plans, or a slowdown of the arms race.

A national effort to plan for converting military firms to making civilian goods is indispensible for reversing the arms race and stemming the decline of U.S. industry.

ILLUSTRATIONS: STEPHEN ELSTON

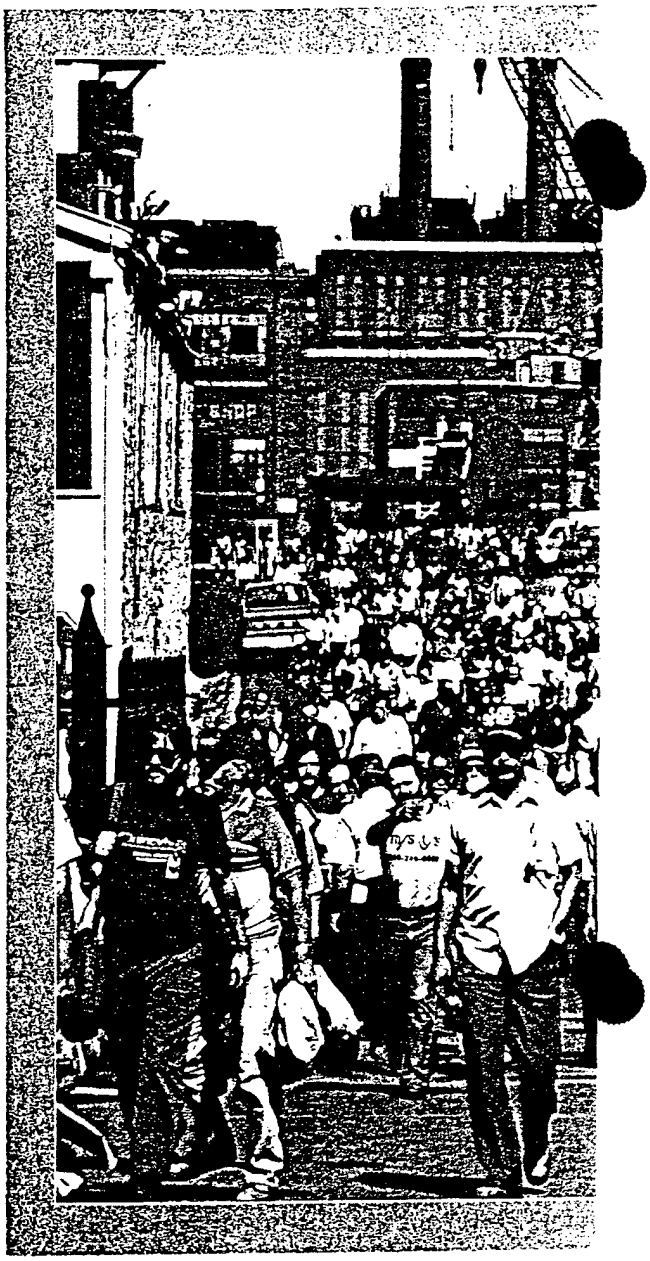
Workers, company managements, local communities, and state governments respond by lobbying to save factories, laboratories, and bases that serve the Pentagon, as they have given no thought to economic alternatives. U.S. representatives and senators lobby to secure defense contracts for their districts not because they favor the arms race but because they wish to provide jobs for their constituents. As this process continues, the enormous resources devoted to the military—the capital equipment and production facilities, R&D efforts, managerial abilities, and productive skills—are drained from an already faltering civilian industrial sector. The apparent lack of alternatives to the military economy helps to fuel the arms race and erode the industrial base.

Yet there are alternatives. Facilities can change over from military to civilian work—provided they make detailed plans for this change before a crisis is imminent. Consider how different the situation at Quincy would have been if a committee of managers and workers had made detailed technical, organizational, and economic plans for using the yard's large fabricating shops to make fishing vessels for the outdated New England fishing fleet, other types of civilian ships, metal bridge spans, or industrial equipment. The community would have had some options to choose from instead of facing serious economic hardship.

The United States has more than 150,000 Quincies. The nation must require these firms, laboratories, and bases now serving the military to plan for converting to civilian production. The planning efforts must be local in origin to ensure their success, but they must also be federally mandated to surmount the resistance of top management, which prefers to continue dealing with the military rather than pursue alternative options.

The Military's Drain on Resources

Although the military budget is only 6.5 percent of the gross national product, it siphons off a much larger share of the country's production resources. In 1979, the military received $33 in capital resources, including fixed and working capital, for



every $100 of new civilian capital formation. In Germany that ratio was 20 to 100, and in Jap was 3.7 to 100. I estimate that the Soviet ratio 66 to 100. Those numbers show why Japan has so successful in international competition; it in far more of its capital in constantly renewin civilian industrial base. By 1988 I estimate tha U.S. ratio of military to civilian use of capita sources will be about 87 to 100 if the current bui continues. Moreover, the United States allocat percent of federally funded R&D to military-re efforts. And over a third of U.S. engineers an entists in some fields, including aerospace and trical engineering, now work in military-related This depletion of the civilian sector occurs countries with sustained military economies, less of their economic and political structures

Instead of "Japan-bashing"—lambasting the

SEYMOUR MELMAN is professor of industrial engineering at Columbia University and author of Profits Without Production *(Knopf, 1983) and* The Permanent War Economy *(Simon and Schuster, 1974).*

The N.Y. Naval Shipyard stood abandoned and 9,000 people were laid off when the yard shut its doors in 1984 after 165 years of operation. With advance planning, the shipyards could be used to make civilian ships and industrial machinery.

anese for their success—we must face the fact that our investment in new civilian plants and equipment, and our R&D on new production techniques and civilian product designs, are seriously inadequate. As the American Electronics Association has recently stated, "We cannot siphon off a disproportionate share of our skills and technical resources to military application and still stay ahead of Japan in commercial markets."

Indeed, there is a growing awareness in Congress and among the public that the United States cannot have both guns and butter. The huge federal deficit, much of it stemming from the recent increase in the military budget, is creating serious problems for U.S.-based production in both domestic and foreign markets. The international borrowing required to cover the federal deficit drove up the price of the dollar relative to other currencies by 75 percent from 1980 to 1984. Thus, the inflation of the 1970s has been transferred to the master commodity—the dollar—and both high-technology and smokestack firms are suffering, as are farm producers. No one can reduce costs 75 percent to offset the inflated dollar. Planning for converting from military to civilian production is essential if we are to make any serious effort to reverse these effects.

Such planning is also essential to efforts to slow down the arms race. Even members of Congress who would like to cut ineffective or unneeded weapons programs find it difficult to do so because of public pressure to maintain sources of jobs and income. Sen. Alan Cranston (D-Calif.), who attempted to capture the Democratic nomination for president based on his commitment to halting the arms race, voted to approve funds for producing the B-1 bomber, which is largely assembled in California. Sen. Edward Kennedy of Massachusetts, a principal author of the Senate resolution calling for a nuclear freeze, has also voted for military budgets that fuel the U.S. side of the arms race. Of course, the Pentagon is superbly equipped to garner support for its programs among members of Congress. Its liaison group for the House and Senate includes one staffer for every two members of Congress. These lobbyists maintain regular contact with representatives and facilitate attention to military producers in their states. Members of Congress will continue to succumb to these pressures until a national conversion plan frees them from relying on the military budget to deliver jobs and income.

Advance planning for converting military plants to civilian enterprises will also offer alternatives for the military labor force. Few unions—with the notable exception of the International Association of Machinists and Aerospace Workers—have made a sustained effort to promote alternatives to military work. Most professional engineering societies have also been reluctant to address the problems of moving from military to civilian employment. Instead, both unions and professional societies usually devote their resources to gaining the maximum number of Pentagon jobs for their members. Some union leaders and engineers see efforts to find alternatives to military-related employment as biting the hand that feeds them. This sense of threat even led some union leaders at the Quincy shipyard to accuse one member who wanted to plan for converting that facility of being a Soviet sympathizer. They understand that the Pentagon does not look kindly on efforts to curtail its huge concentration of power to allocate money and jobs.

PHOTOS: *BOSTON GLOBE*, UPI/BETTMANN, AP/WIDE WORLD

We could achieve full employment by redirecting resources toward modernizing our industrial base.

have to be transferred to other industries and communities, since no civilian firm could survive with the overhead typical of military contractors. In 1978, when I visited the Rockwell plant outside Los Angeles that was building the B-1 bomber, the staff included 5,000 production workers, 5,000 engineers, and 4,000 administrators. Because these people have served the military at society's request, the public should provide relocation allowances and generous income guarantees during the changeover period—say, two years' salary up to a limit of $40,000 a year. State employment agencies could coordinate efforts to help them find alternative employment.

Facilities would have to regroup the remaining staff to avoid the inefficient practices typical of military-serving firms. Introducing new employees with experience in producing civilian goods would also be essential to the success of any converting enterprise.

Firms could be required to put 1.25 percent of their military contracts into a special fund administered by the Treasury for retraining, income support, and other conversion operations. Some facilities might not be able to convert to civilian production because their equipment is too specialized or their location impractical. And there would be no guarantee that firms that did convert would be successful. However, the fact that the people who have the most at stake would draw up the conversion plans would maximize the chances for success.

The top management of a company could decide not to adopt the conversion plan even if a facility were threatened with shutdown. However, the plant's workers and the larger community could pressure managers to pursue the alternatives because everyone would know that a comprehensive plan existed. Outside investors and even the employees themselves could also consider taking over the plant with assistance from state and local economic development agencies. Local governments could even use their power of eminent domain to take over a facility rather than allowing a firm to mothball the plant indefinitely.

Garnering Political Support

Every U.S. president from John Kennedy to Ronald Reagan has opposed legislation promoting plans for economic conversion. They have taken their cue from Pentagon officials, who regard such p as a blueprint for diminishing their power. It that any plans that allow individual firms a society to reduce their dependence on militar ing would erode support for the Pentagon and the arms race. Because of such pressur ernments of nations with military economi resisted efforts to set up conversion program the government of Sweden has broken this by publishing a two-volume report on the fea of military-civilian conversion.

Top U.S. officials and economists often m that long-range planning is unnecessary beca market will absorb laid-off workers, and b military contractors will plan for conversion ever it is in their interests to do so. Howev incomparably easier for contractors to o within the cost-maximizing framework of th tagon than to compete in the open market, cannot count on them to make an effort to c Of course, the market's "unseen hand" migh tually help revitalize the U.S. economy. Me however, the millions of people directly a rectly involved in military production woul serious hardship. The justified fear of wide layoffs generates massive political opposition backs in the military budget, delaying such cl indefinitely. With a national framework fo verting from military to civilian production, pects for peace could be viewed as an inva opportunity rather than a severe penalty.

Some observers maintain that conversion pl is unnecessary because governments could aw vilian contracts—say, for repairing the infra ture—to military firms, much as the Pentago awards contracts. However, this is a certain r failure because these firms are not prepared to directly to producing civilian goods, and becau type of no-bid contracting would only encoura wasteful practices endemic today.

For all these reasons, national legislatior mandates comprehensive conversion planning sential. Rep. Ted Weiss (D-N.Y.) proposed suc islation in 1985—H.R. 229. Despite opposition the military and its contractors, the time may b for bringing such a bill to national attention public is increasingly aware of the high soci economic costs of escalating military budge coalition of peace groups, professional societi inesspeople, unions, religious groups, and mi

THE TRADE-OFFS OF INVESTING IN MILITARY VERSUS CIVILIAN RESOURCES

Seven percent of the military outlays from fiscal 1981 to 1986	[illegible]	**The cost of rehabilitating the U.S. steel industry so that it is again the most efficient in the world**
The navy's F-18 fighter program	[illegible]	**The cost of upgrading America's machine-tool stock to bring it to the average age of Japan's**
Cost overruns, to 1981, on the navy's Trident and the air force's F-16 programs	[illegible]	**The cost of rehabilitating one out of five U.S. bridges**
The cost overrun, to 1981, on the army's heavy-tank (XM-1) program	[illegible]	**The shortfall of capital needed to maintain the water supplies of 150 cities for the next 20 years**
The cruise-missile program	[illegible]	**The cost of bringing the annual rate of investment in public works to the 1965 level**
The cost overrun, to 1981, on the navy's Aegis-cruiser program	[illegible]	**The cost of a comprehensive R&D effort to produce cars that get 80 to 100 miles per gallon**
The cost overrun, to 1981, on navy FFG-7 frigates	[illegible]	**The minimum added annual investment needed to prevent U.S. water pollution from exceeding present standards**
The cost of excessive, nonstandard service equipment for military aircraft	[illegible]	**President Reagan's fiscal 1981 and 1982 reduction in capital grants for mass transit**
One F-15A airplane	[illegible]	**The cost of training 200 engineers to design and produce electric trolleys in the United States**

and women's organizations can be counted on to throw their support behind the bill.

Some proponents of this legislation want to combine military-civilian conversion with overall efforts to revitalize U.S. industry. However, military contractors face a series of unique tasks: they must make the major decision of which civilian goods to produce, retrain managers and engineers, bring off the large-scale relocation of excess engineers and technicians, and complete a major redesign of their production facilities. In contrast, industries that are candidates for revitalization face the central problems of upgrading their capital supply and their engineering and managerial competence. The U.S. steel industry, for example, has a market; it must figure out a way to modernize and improve the efficiency of its production to better serve that market. Thus, hile military-to-civilian conversion is necessary to new our industrial base, the administration of these two efforts should be kept separate.

More and more Americans are doubting the conventional wisdom that the military is the best source of jobs and prosperity, and that U.S. economic resources and resilience are unlimited. The severe decline in our industrial base may provide the impetus for establishing a national framework to convert to a peacetime economy.

FURTHER READING

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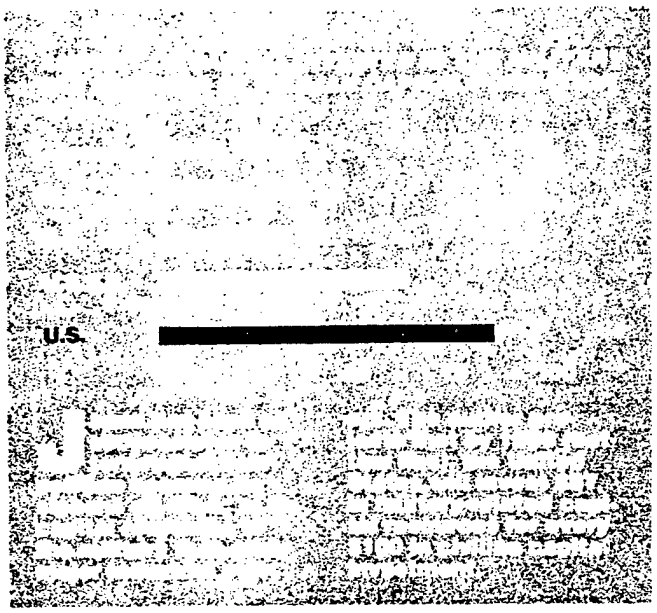


A few groups have attempted to draw up comprehensive plans to convert plants serving the military to civilian production. However, company managers have been reluctant to embrace these ideas. For example, during the early sixties, when the New York Naval Shipyard was threatened with closing, graduate students in Columbia University's Department of Industrial Engineering and Operations Research devised a set of alternatives under my direction. This work led to a blueprint for turning the shipyard into a modern, profitable shipbuilding plant, which I sent to Mayor Wagner, his Economic Development Committee, union officials, bankers, members of Congress, and federal officials. Few of these people even bothered to read the proposal. Instead, they devoted their efforts to the "Save the Shipyard" committee, which conducted the usual lobbying and public-relations campaigns in a desperate attempt to attract new military contracts. The navy ordered the yard shut in 1964. Not until 1967 did the U.S. Commerce Department commission researchers at Fordham University and a consulting firm to prepare a plan for redeveloping the shipyard. The consultants proposed offering production, storage, and office space to firms in varied industries. However, by the time the report came out, the yard had been closed for four years and the labor force had dispersed. The area remains poorly used today.

In the 1970s engineers and production workers at the North London plant of England's Lucas Aerospace Co. devised perhaps the best-known blueprint for converting from military to civilian production. When cutbacks in defense budgets threatened employees' jobs, these workers prepared detailed plans for making an array of civilian products, including gas heat pumps, windmills, and portable dialysis machines. The plans included an analysis of how to finance such ventures and of potential markets. These efforts attracted widespread publicity, sparked an intense national debate and interest fr other unions. Yet the company's top managem refused even to discuss the proposals, and fired engineers who led the effort. The firm did have reduce its operations significantly.

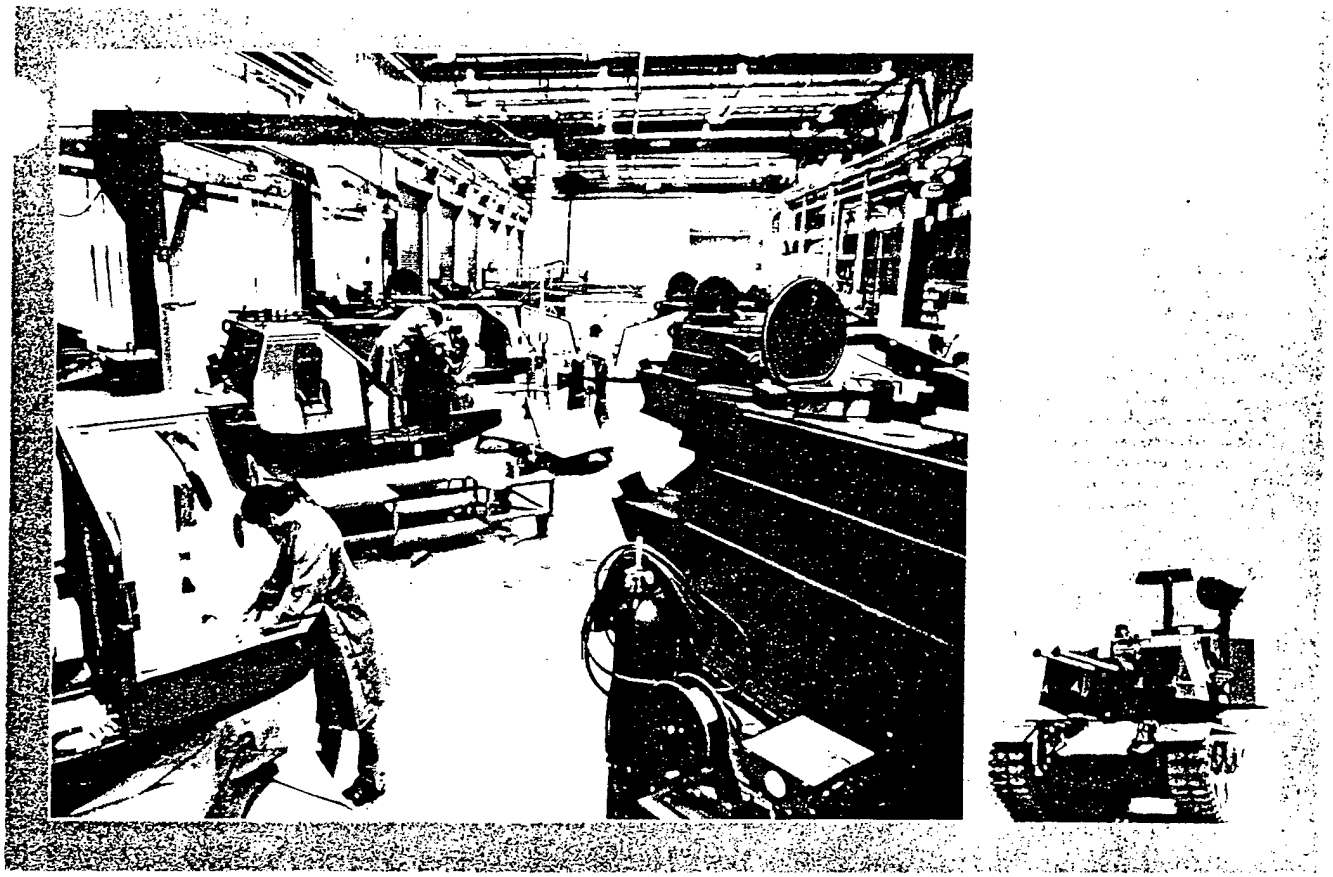
This experience highlights the fact that top m agers of defense contractors prefer to deal with military, which guarantees a market for their pr ucts, rather than compete in the civilian marl Managers also fear that efforts to make long-ra conversion plans will alienate them from the n tary. Of course, many firms seek to cushion the ri of working exclusively for the military by acqui divisions that produce civilian goods. Howe most managers view efforts to actually convert i itary plants with utmost skepticism and feel thr ened by employee initiatives.

Setting Up a National Strategy

To surmount these barriers, Congress must legislation requiring every factory, laboratory, base that serves the Pentagon to draw up long-ra plans for converting to civilian work. Separating issue of conversion from ideological disputes ab whether a nuclear arms race can be won or hov end it would, in turn, allow Congress to devi military budget according to actual defense ne Managers, engineers, and union leaders would longer have to be afraid of appearing to criticize very source of their jobs and income.

Each facility must have the responsibility for vising its own conversion plans, as only local ployees and managers understand their uni circumstances and can choose which product pursue. Even review of these plans by a central eral agency would be impractical and prohibiti expensive. Ten years ago, Lloyd J. Dumas, profe of political economy at the University of Texas timated that a staff of more than 14,000 people a yearly budget greater than $500 million woul required to review all conversion plans. Central development of conversion plans would be more cumbersome and costly.

A facility of any size would need at least two to prepare a detailed technical, organization financial conversion plan. Setting up teams posed half of managers and half of employees w



ıarantee a serious effort, as all whose futures were ..irectly affected would be involved.

The committee's choice of which products to make would be crucial. However, the range of industries that could provide a market is broad. Conversion committees could begin their search by looking to the goods that the United States now imports. For example, Canadian, German, and Japanese manufacturers supply the electric-powered trolleys and subway cars used in the United States, an obvious market for military contractors. Foreign firms also supply 45 percent of all U.S. machine tools, including computer-controlled tools—another obvious market. The array of materials and equipment required to repair the nation's crumbling infrastructure, including the 45 percent of all highway bridges that are no longer considered safe, is another major market. And of course, firms could also develop completely new products.

To define potential markets for firms wishing to convert to civilian production, a national conversion committee should require federal agencies to determine the capital-investment needs for the activities under their jurisdiction. The committee could also invite state and local governments to determine their ·ng-term needs. In 1979 the U.S. Commerce De..artment put the value of "fixed reproducible tangible wealth"—which includes all business, government, and household structures and capital equipment, minus military and consumer durables—at $5.7 trillion. I estimate that more than two-thirds of this equipment is at least 10 years old. Therefore, bringing the nation's production facilities and infrastructure up to a first-class standard would cost $3.8 trillion and require 14 million workers each year for at least 20 years. Since about 8 million workers are unemployed and 6 million more serve the military economy, we would achieve full employment by redirecting our resources toward modernizing our industrial base.

Devising a way to make equipment of all classes at prices competitive in the world market is one key to successful conversion. That will not be easy—but it is possible. Contrary to popular belief, high U.S. wages are not the primary obstacle. Although U.S. workers were among the world's best paid from 1865 to 1965, in 1980 they ranked ninth. Yet only now do U.S. managers cite wages as a major factor in making it difficult to compete. The Swiss, whose workers are among the highest paid of all, produce top-of-the-line precision instruments such as electron microscopes and advanced machine tools. The challenge is to channel our resources, including technical talent and capital investment, into production that generates wealth for our society, instead of siphoning off an ever larger bite to the military.

Managers and engineers, as well as some production workers, will have to be retrained. Public universities could set up one-year training programs to help in this effort. Many white-collar workers will

PHOTOS: FORD AEROSPACE

Problems of Converting to Civilian Production

Today's task of converting from military to civilian production differs greatly from that of moving to a peacetime economy after World War II. Factories that geared up for the war effort could revert to the production equipment, plant layout, product design, organization, and marketing practices they had used before the war. Many previous employees were still around or returning from active duty. Because of these differences, that experience provides little precedent for the difficulties military contractors now face.

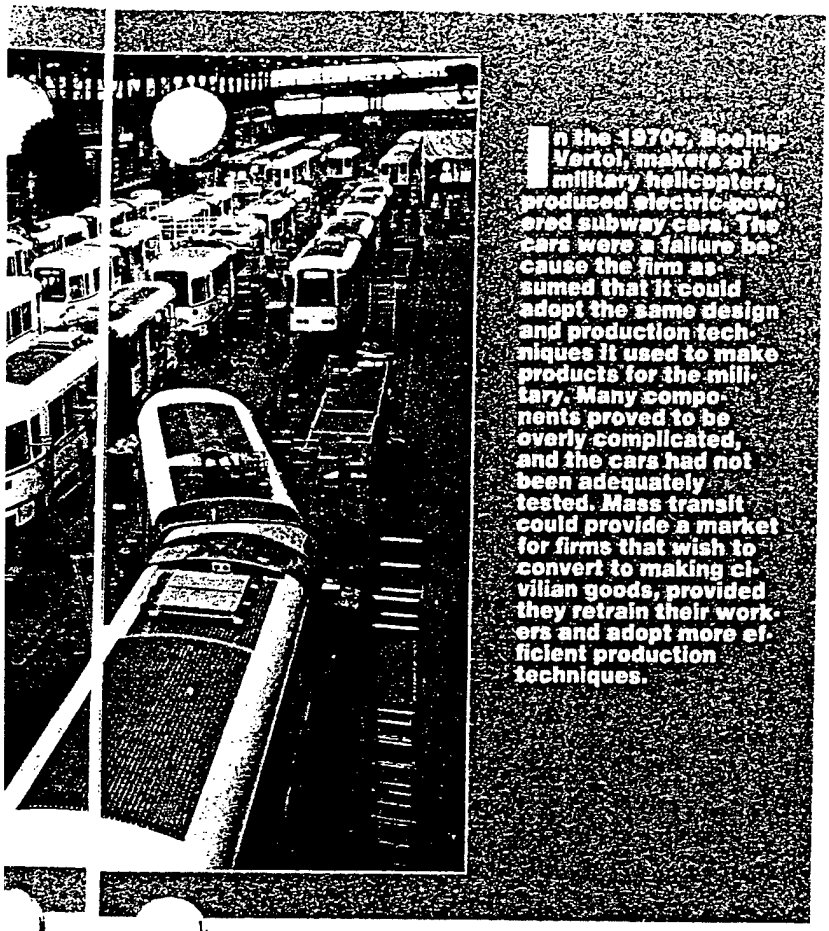
A handful of large military contractors did try to use Pentagon-serving facilities to produce civilian goods during the sixties and seventies, but none were successful because the requirements for supplying the two sectors are quite different. Civilian firms, whether competitive or monopolist, strive to minimize production costs to maximize profits. Military-serving firms have no such constraints because the Pentagon determines its payments for weapons and other items through a process of "historical costing." That is, instead of trying to figure out what a new weapon should cost based on different designs and production systems, the Pentagon estimates the costs according to those of previous programs, and adds a percentage as profit. This means that the budget has a built-in escalator, with the military continuing to pay for whatever waste it funded in the past. Moreover, defense contractors have strong incentives to enlarge their costs because that determines both the amount of profit they make and the level of future funding. Contractors also buy production equipment that their counterparts in the civilian sector could not justify, because the Pentagon provides funds for capital investment. Defense Secretary Robert McNamara codified these procedures in the Pentagon's formal regulations during the early 1960s. The widely publicized horror stories about $7,600 coffee makers and $42,000 sets of minor hardware are the normal result of such institutionalized practices.

Defense contractors also do not produce goods that are as reliable as those that firms in the civilian market make. Civilian firms must typically make products with a 1 percent or lower failure rate to stay in business. In contrast, the F-15, the most advanced U.S. fighter plane, averages 55 percent availability—the air force can count on only half of the

planes to operate at any given time. No transit system could afford to keep half its in maintenance. Aegis, the navy's anti-aircra tem deployed on destroyers, costs more than billion per unit, yet the navy expects it to be avai only 42 percent of the time, and its software tions an average of just two and a half hours bet failures. Needless to say, only firms that have a anteed market for their products could affor deliver such unreliable goods. The military's sy of "concurrency" contributes to this unrelial Pentagon regulations allow contractors to go di from the design stage to production without te and refining their products.

The engineering staffs of military contra function much differently from their counterpa the civilian sector. A manager of a civilian electr firm describes these differences: "We have h number of design engineers come and go who their training in the aerospace business . . . men brilliant minds, outstanding recommendations, very fine schooling. Without exception they flunked out of our company because they had r really thought about designing a consumer pro

"In aerospace you are given something to b with a set of specifications, and that's it. If it you $5,000 or $50,000 you build to those cations. . . . In consumer industry the design e has to be constantly weighing, making decisions



In the 1970s, Boeing-Vertol, makers of military helicopters, produced electric-powered subway cars. The cars were a failure because the firm assumed that it could adopt the same design and production techniques it used to make products for the military. Many components proved to be overly complicated, and the cars had not been adequately tested. Mass transit could provide a market for firms that wish to convert to making civilian goods, provided they retrain their workers and adopt more efficient production techniques.

Military firms that have attempted to make civilian goods have typically met with disastrous results.

...ect the value of the product and may in the end affect the overall appearance of the product and its functions. . . . You have to be prepared to have the end product be somewhat different from what you had intended." These problems begin in our colleges, which do not train engineers to do "value engineering"—they usually train them to be indifferent to cost.

Because of these contrasts, military contractors that have attempted to use people and facilities to produce civilian goods without advance conversion planning have typically met with disastrous results. The effort of Boeing-Vertol, makers of military helicopters, to produce electric-powered trolleys and subway cars during the 1970s was one such failure. The company mistakenly assumed that its designers and assemblers could function as "systems engineers," easily combining components produced by subcontractors in England, Germany, and Japan. The company also followed the military practice of dispensing with thorough prototype testing: engineers took the cars straight from the drawing board into production. Naturally, when the cars were put into actual use, mainly by the Massachusetts Bay Transportation Authority (MBTA), they broke down often.

The trucks and wheels at the center of the trolleys persistently derailed. The cars' main mechanical components were not arranged for ease of maintenance. The circuitry controlling the propulsion system proved to be unreliable. Cooling motors and fans for traction motors burned out rapidly. Main gearboxes leaked lubricant, and no one seemed able to devise a solution. Many components proved to be overly complicated—engineeers had to reduce the number of parts in the doors by half after they repeatedly failed to work. Users had trouble obtaining spare parts from foreign suppliers, and they had no way to predict how many spares they would need since the products had not been tested. Boeing-Vertol repair workers and engineers had to take up residence at the MBTA's maintenance shops. After several lawsuits, the company went back to producing military helicopters.

Attempts by the Rohr Corp.—makers of engine nacelles, or enclosures, for the aerospace industry—to produce cars for San Francisco's BART mass-transit system met with a similar fate. Both Boeing-Vertol and Rohr merely attempted to diversify their product lines without retraining their managers, engineers, and production workers to perform the procedures that are essential for making civilian products.

The experiences related by the marketing manager of a major aerospace contractor during the mid-sixties illustrate similar problems. The manager's firm decided to try to sell to civilian doctors an electrocardiograph machine developed for use on U.S. astronauts. Three representatives of the firm called on a leading cardiologist to show him the machine, which was encased in a sturdy, military-type container. The cardiologist was impressed, but he asked whether the AMA had approved the machine for general use. The industry men were taken aback, and asked what the American Management Association had to do with this sort of thing. They were unaware of the American Medical Association and the fact that it might have some say in evaluating new medical devices.

The doctor then asked what sort of liability insurance the firm was prepared to offer. This really surprised the management men, who did not know that they could be held responsible if something went wrong with a patient who was linked to the machine. Finally, when the men told the doctor the machine would cost $6,000, he told them that was ten times the price of electrocardiographs already on the market. The company decided to abandon the idea of selling its product to the medical community.

PHOTO BOEING

The Defense Economic Adjustment Act: H.R. 441 Introduced by Representative Ted Weiss (D-NY)

1. Definition of Conversion and Legislative Requirements

Economic Conversion is the political, economic and technical process for assuring an orderly transformation of economic resources now being used for military-oriented purposes to alternative civilian uses. The specific characteristics of military firms and the nature of the conversion planning process define the problems confronting firms, laboratories, bases and training institutions seeking to meet the needs of a civilian economy. In particular, mandatory alternative use committees comprised of management and labor are needed to give these two primary groups implicated by the conversion process a stake in planning for civilian production. Conversion plans must be available before defense layoffs occur in contingency plans which are prepared in military-serving facilities across the nation. Funding must be in place to maintain worker benefits while firms undertake conversion to civilian work.

Planning must take place on the facility level to insure proper attention to the detail of regional economic needs and to apply the first hand knowledge of management and labor in conversion proposals. Planning must be decentralized and funded out of facility contracts to insure adequate economic support for advance planning and to avoid the exorbitant cost and planning difficulties inherent in a centralized national planning office. *The Defense Economic Adjustment Act (H.R.441) contains the mandated alternative use committees, facility-based planning apparatus and proper funding mechanisms necessary to insure a stable and orderly conversion of military-serving institutions.*

2. Summary of the Defense Economic Adjustment Act

The Defense Economic Adjustment Act 's main provisions include:

Title I: Defense Economic Adjustment Council

Title I establishes this federal level coordinating body for conversion planning, procedures and support, and gives it four specific functions:

1. The Council transmits a one-year prenotification of any Defense Department action on a contract or base which will affect employment. This information is given to the appropriate local officials and alternative use committees.

2. The Council directs concrete plans for non-defense public projects "addressing vital areas of national concern," such as environmental protection and renewable energy resources.

3. The Council acts as a clearinghouse on any existing federal programs relevant to the affected community or workforce.

4. The Council prepares and distributes a Conversion Guidelines Handbook, a complete "how to" book on converting from defense to civilian production.

NATURAL GAS LEGISLATION TO STOP UNFAIR REFUND CLAIMS

HON. JOHN BRYANT

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 3, 1991

Mr. BRYANT. Mr. Speaker, I am today introducing legislation to prevent the Federal Energy Regulatory Commission from requiring natural gas producers, royalty owners and the Texas State Treasury—which collects gas severance taxes—to pay refunds as a result of a recent Federal court of appeals decision in the Fifth Circuit. Such a refund requirement could easily cost Texans many millions of dollars.

Under the terms of the court decision, a 1986 FERC order—Order 451—was vacated because the Court ruled that the Commission overstepped its authority by allowing the price of natural gas drilled before January 1, 1973 to rise to market level. It would be blatantly unfair to require Texas gas producers and taxpayers, as well as those in other producing States, to be penalized for doing exactly what the FERC told them they could do—raise the price of old gas.

Whether the court of appeals was correct in finding fault with the FERC action remains subject to debate and further appeal. My point in introducing this measure, however, is to make sure that the State of Texas, its taxpayers, royalty owners and natural gas producers are treated fairly, and not held liable for a regulatory agency's error.

My bill will protect the original sellers of old gas affected by the FERC order from claims which are anticipated to follow the court ruling. Without this prohibition, the State of Texas, which earns substantial royalty income from gas produced on State lands, could expect royalty refund claims from producers required to make refunds to the first purchasers of their old gas. It also protects the millions of dollars in natural gas severance tax revenues collected by millions of dollars in natural gas severance tax revenues collected by the State of Texas based on the increased gas prices.

I recognize that the FERC order was an attempt to rectify the old gas pricing system, which contributed to market distortion and thwarted attempts to replace depleted gas reserves. This market disorder actually led Congress to enact legislation, which I was proud to support, which decontrolled all natural gas prices.

But, by acting to vacate the FERC order after Congress decontrolled all natural gas, the court has set the stage for massive market disruption. It is ironic that in its decision, the court said that "which we remain poignantly aware that the problems facing the natural gas industry are numerous and complex, we nevertheless emphasize that Congress alone has the power to do—or authorize to do—what the Commission has done" in its orders.

Congress has now decontrolled old gas. What I now ask is that Congress direct the FERC to prohibit refunds. Neither the taxpayers in Texas and other producing States, nor our struggling domestic energy industry should be made to suffer for a bureaucratic error.

I invite my colleagues to join me in this effort.

H.R. —

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 504 of the Natural Gas Policy Act of 1978 (15 U.S.C. 3414) is amended by adding at the end the following new subsection:

"(d) LIMITATION.—No person shall be required to refund any portion of any amount received in any first sale of natural gas, or be subject to any civil or criminal penalties, if the amount received by such person in any such first sale exceeded the maximum lawful price for such gas solely by reason of the decision of the United States Court of Appeals for the Fifth Circuit in Mobil Oil Exploration and Producing Southeast, Inc. v. Federal Energy Regulatory Commission (C.A.-5 No. 86-4940), vacating Federal Energy Regulatory Commission Order Nos. 451 and 451-A. This subsection shall apply only to first sales made before the date judgment is entered in such case.".

THE DEFENSE ECONOMIC ADJUSTMENT ACT

HON. TED WEISS

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 3, 1991

Mr. WEISS. Mr. Speaker, today, I am reintroducing legislation to create a national plan for the economic conversion of our defense plants and military bases to civilian production. By providing viable civilian alternatives to military spending, this bill would limit the economic dislocation resulting from the cancellation of military contracts or the closing of bases that are judged nonessential for the defense of our Nation. Such cancellations and closings already have resulted in over 35,000 military industry layoffs since 1988. Hundreds of thousands more lie ahead.

While the Persian Gulf Crisis has temporarily blocked efforts to reduce military spending, Operation Desert Shield, from a planning and budgetary standpoint, "is just a perturbation in the flow of events," as the Navy's top program planner Vice Adm. William D. Smith said. The administration's long-range plan to significantly cut defense spending and shift the Pentagon's focus to combating regional threats has not changed. In a speech in London on December 5, Chairman of the Joint Chiefs of Staff Colin Powell said, "Our view of where we were heading was clear and I believe is still clear."

Nearly a dozen senior military officers interviewed by the Washington Post agreed that deep cuts should begin after the gulf crisis is resolved because of the diminished threat of a global war with the Soviet Union. Further, the Persian Gulf situation forces us to consider the dislocations implied by the current logistics buildup and the subsequent wind down once the crisis is resolved.

While the policy of economic conversion outlined in my legislation, the Defense Economic Adjustment Act, would limit the effects on individuals and on communities of economic dislocation resulting from the inevitable base closings or defense contract reductions or cancellations, passage of this legislation also would broaden our industrial base, enhance our economic security, and encourage a more balanced and rational process of developing weapons systems.

Obviously, there is a direct causal relationship between the Nation's military industrial base inadequacies and the recent disinvestment and underinvestment in the domestic civilian industrial sector. America should learn from the ruination of the Soviet economy by the displacement of civilian industry in the service of its war economy. We only need to look around us to see the deterioration caused by our overemphasis on military development. The operation of a large military economy for more than 40 years has lead to major underinvestment in the facilities and services which make up our Nation's infrastructure. These include roads, education facilities, libraries, public health operations, and parks.

In addition, as Prof. Seymour Melman, professor emeritus of industrial engineering at Columbia University and renowned author, explains:

> A process of technical, industrial, and human deterioration has been set in motion within American society. The competence of the industrial system is being eroded at its base. Entire industries are falling into technical disrepair, and there is massive loss of productive employment because of inability to hold even domestic markets against foreign competition.

The military-dependent firm concentrates on producing increasingly complex hardware which will satisfy the needs of a particular defense project, regardless of cost. Often, these firms manufacture products which are essentially useless to the civilian population and uncompetitive in international markets.

There is compelling evidence that military spending creates significantly fewer jobs than comparable spending in the civilian sphere. While civilian production creates items of value for consumers and producers, military production does not. Money spent on the military leaves our economy for good and deprives us of the secondary benefits that commonly result from civilian production. For instance, total employment per $1 billion spent is estimated at 20,175 for guided missile and space vehicle production. This compares with 30,394 jobs created in the motor vehicles industry and 71,550 jobs created in education services, according to the calculations of the Bureau of Labor Statistics.

Further, our economic reliance on the military results in a severe brain drain of our most advanced technical workers away from civilian fields. Currently, 75 percent of all Federal research and development funds are spent in the military budget. A large percentage of all scientists and engineers are devoted to military-related work. In practical terms, this means that many of our trained scientists and engineers are working to devise more complex and destructive military equipment while U.S. productivity is lagging in important areas such as scientific research, computer technology, machine tools, and other domestic areas.

Economic conversion, rather than being the economic risk that some have suggested, is an economic opportunity. But applying more of our technical and scientific resources to the civilian economy, we would be better able to address the problems facing many of our Nation's troubled industries. A greater reliance on civilian production could also help train many underemployed and unemployable individuals whose needs are currently unmet.

Economic conversion also is essential if we hope to make meaningful progress toward arms control. Many of our current defense decisions reflect political considerations rather than a weapons system's contribution to national security. This often occurs because political and community leaders, quite legitimately, frequently band together to resist the cancellation of weapons systems that are built in their districts. By creating viable alternatives to military spending, economic conversion would assure the millions of workers in military dependent industries that their jobs will not be sacrificed in the effort to achieve meaningful arms control. If communities do not protest proposed cuts, decisions more likely will be made based on their merits rather than job considerations.

My bill provides a detailed plan for preserving the jobs of those affected by decisions to eliminate unnecessary military spending. Importantly, it is a decentralized plan that places the decisionmaking power in the hands of those directly affected by such cutbacks. The plan contains the following key points:

First, the bill calls for the creation of alternative use committees at large defense facilities. These committees, comprised of both representatives of labor and management, would develop detailed plans for the conversion of the facility to civilian-oriented production.

If such a blue-print is completed in a timely manner, that is, before the announced contract reduction, the community would be able to implement the transition of the facility, retrain its workers, and start production without the massive employee layoffs and community disruption which often occurs with contract cancellations.

A program of community assistance without pre-planning at the facility level cannot succeed. History has shown that the preparation of conversion plans is a very detailed, time-consuming process. It requires the cooperation of managers, consultants, engineers, workers, and community leaders. The managers of defense-serving firms possess vital information about plant capacity, workers skills, marketing strategies, and community resources which must be utilized in order to develop a workable conversion plan. Obviously, their participation is crucial.

The experience of military bases that have closed over the past 20 years is a common one. Bases close. Thousands of workers are laid off and transferred. The local economy is severely affected as property values decline. Overall demand in the local economy drops off as workers' incomes are reduced or they move out of the area altogether. Finally, some years later, the community regroups and begins serious planning. In many cases, the military base has been successfully converted into civilian production and the new enterprise employs more people than before. This, however, only happens after several years of hardship and economic deprivation. This economic layover can be avoided if contingency plans are made at all military installations upon their receiving a military contract.

My legislation does not ask to make business decisions for the defense-contracting firm. It only asks that they participate, in good faith, in a planning process with the community and its employees in its facility's conversion in the event their contract expires or is significantly reduced. That is it. Lend workers and the community in which they are situated your knowledge and expertise so that eventually major economic upheavals can be eased or eliminated.

In addition to the critical preplanning aspect of The Defense Economic Adjustment Act contains the following key additional components:

The bill calls for a Cabinet-level Defense Economic Adjustment Council charged with developing plans for public projects that address human needs. The Council also would serve as a clearinghouse on existing Federal programs relevant to communities affected by military cutbacks and would publish a guidebook for local conversion planners.

The Defense Economic Adjustment Act would also require one year's advance notification of plans to cut back or terminate a defense contract or a military base. The Defense Economic Adjustment Council is responsible for informing the appropriate local officials and the alternative use committees of pending cutbacks.

Finally, the bill provides for adjustment assistance for communities and workers while conversion is underway. Communities seriously affected by defense cutbacks would be eligible for Federal planning assistance, and individual workers would be eligible for adjustment benefits, including funds for retraining.

If Congress terminates a military contract, the local Alternative Use Committee would be notified in advance. This committee would then put in motion an existing plan to convert the affected plant to civilian production. The Federal Government would provide guidance and support for the workers and their community, but the new enterprise would receive no subsidy and would have to compete on its own in the marketplace.

The comprehensive plan for economic conversion contained in the Defense Economic Adjustment Act would free our Nation from the tyranny of jobs blackmail in the approval of military contracts and allow us to pursue a lasting peace without sacrificing our commitment to increasing employment. Moreover, it would contribute to a national economic renewal by providing resources necessary for the revitalization of basic industries and the repair of our infrastructure.

A measure included in the 1991 Department of Defense Authorization Act falls far short of the provisions advanced in this legislation. The current law does not mandate any advance planning through alternative use committees for direct conversion of defense-related plants, facilities and workers. Instead, the measure focuses on providing targeted assistance to minimize the economic dislocation resulting from lower defense spending. It does not encourage the planning for and or direct conversion of defense-related facilities to civilian uses.

The Persian Gulf crisis offers the United States the chance to set in motion the demilitarization of the American economy and the use of a growing peace dividend. We must seize the unparalleled opportunity to advance a new international framework for peace and security, reducing our reliance on military spending as our main instrument of security. The health of our Nation would be served better by investing these savings in the revitalization of the economy and in the rebuilding our Nation's failing infrastructure and education systems.

Economic conversion provides the hope that humanity will survive into a peaceful and prosperous future. It is in this spirit that I urge my colleagues to join me in support of the Defense Economic Adjustment Act.

DON LAHR: CITIZEN OF THE YEAR

HON. ROBERT J. LAGOMARSINO

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 3, 1991

Mr. LAGOMARSINO. Mr. Speaker, next week the Santa Maria Chamber of Commerce will name Donald E. Lahr as its "Citizen of the Year."

If there is anyone who deserves the title, it's Don Lahr. Not just because he's a close personal friend. Nor because of his civic involvement. Nor because he has a beautiful wife and four strong sons—and seven grandchildren.

No, Mr. Speaker, Don Lahr deserves this honor because he truly is an outstanding person and citizen.

Don is an Army veteran who came to Santa Maria in 1947. He attended Santa Maria Junior College, graduating from Whittier College in 1951. After a 7-year career with Sears Roebuck and Co., he became the western division manager for P.J. Gould Co. He then became division manager for Insurance Securities Trust Fund, and in 1967, founded his own company, Lahr Electric Motors, Inc.

During his long career in business, Don did not neglect his civic duties. He was president of Orcutt Unified School District, president of Santa Maria Developers, president of the Rotary Club, chairman of the Santa Barbara County Planning Commission, president of the Supervisors Advisory Committee for Orcutt, president of Santa Maria Association for the Mentally Retarded, director fo the Environmental Research Foundation, and a director of the Santa Maria Valley YMCA. As if that were not enough, a few years back he was appointed to the 37th District Fair Board by Governor Deukmejian.

Don is the husband of Doris Throckmorton Lahr, and they are the parents of Donald, Lawrence, Jeffery and Thomas Lahr. Mr. Speaker, on behalf of the U.S. House of Representatives, I want to extend our sincere congratulations to my friends Don and Doris, and to say that in my view, they will always be "Citizens of the Year."

REPEAL OF SOCIAL SECURITY EARNINGS TEST

HON. BOB STUMP

OF ARIZONA

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 3, 1991

Mr. STUMP. Mr. Speaker, today I am introducing legislation to repeal what I, and many others, consider to be one of the most unfair features of the Social Security Act, the so-called earnings test.

Under current law, Social Security and Railroad retirees can receive only $9,720 per year in earned income. Recipients who annually earn more than that amount generally have

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BRIEFING
PAPER
FOUR

DECEMBER 1988

Criteria for Economic Conversion Legislation

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and Seymour Melman

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Hon. Andrew Young	Mayor of Atlanta, Georgia

EXECUTIVE SUMMARY

Economic Conversion is a political, economic and technical process for assuring an orderly transition of economic resources now being used for military-oriented purposes to alternative civilian uses. The specific characteristics of military firms and the nature of the conversion planning process define the problems confronting firms, laboratories, bases and training institutions seeking to meet the needs of a civilian economy.

In particular, mandatory alternative use committees comprised of management and labor are needed to give these two primary groups affected by the conversion process a stake in planning for civilian production. Conversion plans must be prepared in military-serving facilities across the nation on a contingency basis before defense layoffs occur. Funding must be in place to maintain worker benefits while firms undertake conversion to civilian work.

Planning must take place on the facility level to insure proper attention to the detail of regional economic needs and to apply the first hand knowledge of management and labor. It must be decentralized and funded out of facility contracts to insure adequate economic support for advance planning and to avoid the exorbitant cost and planning difficulties inherent in a centralized national planning office.

The Defense Economic Adjustment Act (H.R. 813) contains the mandated alternative use committees, facility-based planning apparatus and proper funding mechanisms necessary to insure a stable and orderly conversion of military-serving institutions. The table below summarizes how H.R. 813 meets the criteria necessary for successful conversion.

The Defense Economic Adjustment Act and Criteria for Conversion Legislation

The following is a list of the ten criteria necessary for successful national conversion planning which are met by the Defense Economic Adjustment Act sponsored by Representative Ted Weiss. These criteria are explained in Part One. The machinery for meeting these criteria are explained in Part Three and Appendices Seven and Eight.

Mandatory Alternative Use Committees

Advance Conversion Planning with Blue Print Ready Conversion Plans

Advance Notification of Contract Termination

Mandatory Occupational Retraining

Community Economic Adjustment Planning

Decentralized Control of Alternative Use Planning by Management and Labor at the Facility Level

Income Maintenance During Civilian Conversion

Relocation Allowances

A National Network for Employment Opportunity

Capital Investment Planning by Government

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The contents of this Briefing Paper represent the views of the authors but not necessarily those of each member of this Commission.

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About the Authors

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Robert Krinsky was a 1986-87 Corliss Lamont Fellow in Economic Conversion at Columbia University and is completing graduate studies at the University of Pennsylvania. He is a Program Director at the National Commission for Economic Conversion and Disarmament.

Seymour Melman is Professor Emeritus of Industrial Engineering at Columbia University and Chair of the National Commission for Economic Conversion and Disarmament. He has been a consultant to the United Nations on economic conversion and has written numerous books including *The Demilitarized Economy*, (Montreal: Harvest House, 1988), *The Permanent War Economy*, (Revised and Updated, New York: Touchstone, 1985) and *Profits Without Production*, (New York: Alfred A. Knopf, 1983).

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PART ONE

Criteria for Conversion Planning and Legislation

1.1 Introduction

Economic conversion is the political, economic and technical process of assuring an orderly transition of labor, machinery and other economic resources now being used for military-oriented purposes to alternative civilian uses. Conversion requires planning for new civilian-oriented markets, products and research and development. It encompasses industrial facilities, training institutions, military bases and other defense contractors.

Government priorities have committed millions of Americans to work in defense firms. The shift in government priorities away from military production threatens economic hardship for these employees and their families. However, if this shift is matched by a legislative commitment to conversion, then the likelihood that arms reductions would bring economic dislocation is seriously reduced. The scope of the conversion problem is indicated in Table One which illustrates the size of the military economy.

The known special characteristics of military-serving firms, bases, and laboratories define the core requirements for legislation to facilitate advance planning for civilian production and work by these facilities. The prime contractors as presently constituted are unprepared for servicing civilian markets. The training and orientation of managers and engineers in these firms is to serve military objectives in a production environment indifferent to cost; there is a premium placed on meeting the specific requirements of the military project. Military-serving firms by definition are dependent on the federal subsidy of Pentagon budgets which define these markets. Once such markets are withdrawn, through defense budget cutbacks, the military-serving firm faces a crisis. Lacking experience in and commitment to civilian markets, the traditional response to such cutbacks by military managers has been to layoff workers, shut down plants or lobby for new weapon systems.

TABLE ONE: THE MILITARY ECONOMY IN NUMBERS		
Total Defense Department Manpower	[1988]	3,322,000
Defense Related Industrial Employment	[1988]	3,250,000
Total Defense Employment	[1988]	6,572,000
Total Population Dependent on Military Employment, assuming 3 dependents per defense worker and no multiplier effect		26,288,000
Total Defense Department Budget Authority [FY 1988] in thousands of dollars		$283,159,143
Total Number of Defense Department Installations and Properties in U.S., U.S. Territories and Foreign Areas [FY 1986]		1,264

SOURCE: *National Defense Budget Estimates for FY 1988/1989*, Office of Asistant Secretary of Defense (Comptroller), April 1988; *Defense 87: Almanac*, U.S. Department of Defense, September-October, 1987 and authors' calculations.

National conversion legislation must provide an alternative to this "crisis management" approach; by creating the capacity for civilian management within military-serving firms. This is both a political and economic process. Politically, managers, engineers, researchers and production workers must be committed to planning for civilian work. These groups must be able to participate in both the design and implementation of conversion plans. However, at the level of the individual worker's performance, the incentive structure in a military-serving firm rewards military objectives which favor complexity (rather than reliability and economy) and encourage "over-design." At the level of the firm, higher profits and guaranteed, non-competitive markets are the norm in an era of military-budget expansion. To break the hold these incentives have on the individual worker and the firm as a whole, the conversion process must provide alternatives. Alternatives for individual workers include retraining which encourages attention to civilian requirements (e.g. cost minimization, simplicity and functionality in

design). Alternatives for firms as a whole develop when they are able to efficiently produce quality civilian products.

Ten components of economic planning must be addressed by legislation seeking to promote economic conversion. These components are identified below.

1.2 Mandatory Alternative Use Committees

For national conversion legislation to insure effective planning, a planning capacity for civilian work must be created at every defense training, production and research and development facility of size e.g. more than 100 employees. The primary vehicle for such planning should be a legislatively mandated "alternative use committee," at each establishment receiving military contracts, evenly divided between management and labor representatives from that facility. This sharing of responsibility and authority is designed to assure not only a maximum flow of ideas, but also responsibility to both the administrators and to the working people of the factory, laboratory or base. The alternative use committee must be given access to whatever data and facilities it requires for fullfilling this function. The creation of these committees would insure that every firm and base be prepared for cutbacks in its military-related activities by having plans on hand when such cuts are implemented (see: Appendix Eight, pp. 48-50). Such mandatory planning would create constituencies that are economically prepared for arms reductions at military establishments throughout the country.

Why is it necessary to "mandate" such alternative use committees? The problem with voluntary arrangements is that only those communities which face immediate prospects of defense cuts would be likely to band together to approach the Federal Government for funds. One reason is that political leaders have often been averse to supporting conversion contingency planning because to do so has been seen as politically risky, i.e. it could alienate prime contractors who are hostile to attempts to wean them away from profitable defense contracts. It is often feared that conversion planning would alienate the Department of Defense itself, leading it to view a community supporting conversion as unfriendly. Political representatives in military-dependent communities are usually reluctant to discuss conversion prior to the actual loss of jobs and tax revenue resulting from military layoffs.

Military-serving firms also cannot be expected to have contingency plans for conversion. Several case histories demonstrate that military firms have resisted large scale movement away from defense work or conversion which was based on their voluntary participation. They have even been reluctant to participate after lobbying or political pressure by labor and or community groups.[1] Planning which relies on financial investment diversification (see: Part II), and is not designed to support a comprehensive disarmament process, would leave in place the military-specific capabilities of prime military contractors. At this writing there is no evidence of a major military contractor voluntarily undertaking economic conversion planning.

1.3 Advance Conversion Planning

It makes little sense to delay planning for economic conversion until contracts have been cancelled or seriously reduced. Considerable time is required for planning alternative use of buildings, equipment, and people. There is no simple formula for making a competent selection of new products for a military-serving facility. Careful attention must be given not only to market requirements, but also to the suitability of people and equipment for prospective new work. Beyond product selection there are the further tasks of refashioning machinery and production layouts; investigating new materials and arranging for sources of supply; and pre-testing materials and whole processes prior to commencement of new production operations. A period of two years is a reasonable time allotment for these planning time functions (see: Table Two and Appendix Eight, pp. 49-50).[2]

Forty-five years ago the importance of advance planning for the organization of production was recognized by corporate executives preparing for reconversion from military to civilian production. Unlike conversion, reconversion involved a return to servicing civilian markets by firms with experience in this sphere of economy. Conversion is necessarily a more complex task because it requires firms specialized in military production to enter civilian markets without prior experience. In April 1943, David Prince, vice president of the General Electric Company, explained to the War Production Board:

Table Two: The Planning Time Problem*

Phase One:

Selecting a Product -- Six to Nine Months

Management organizes a task force from various departments to study various non-defense products for possible production. Defense firms seeking to convert their military operations will be faced with three basic constraints: What can their machinery produce? What are their workers and engineers technically capable of producing? Where is there a market opening for a new civilian product? The market is studied to answer this latter question and to explore where substantial improvement of an old product or wholly new product would produce a competitive advantage for the competing firm. After the first three months, retraining of engineers, managers and production workers should commence, taking a total of three to six months.

Phase Two:

Product Development -- Five to Six Months

After a product is selected and workers are retrained, production and distribution systems within the firm must be organized so that the firm can properly produce a prototype of the products and line up distributors to transport and sell it. After a final design is selected, a prototype is evaluated and tested. The production system must also be designed so that the products can be produced economically. This phase includes performing engineering laboratory tests on a series of protypes, programming machine tools, purchasing of special tools needed and other parallel activities.

Phase Three:

Production and Distribution Operationalized -- Nine Months

It takes about nine months to set up the production line of the selected product, produce enough of the product for a significant inventory and operationalize the distribution system. Bulk material must be purchased as well as particular parts needed to produce the product. The final plans for advertising the product must also be prepared during this period.

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* The following data estimate the time needed to plan and produce a manufactured item such as a co-generation heat pump. For another example worked out in detail, see reference cited in Note No. 2 of this briefing paper.

> The very least time in which a new product can be conceived, models made and tested and pilot plant production initiated is of the order of two years. I don't remember your expressing yourself regarding how much notice you think we shall get of the end of the war. Personally, I would expect it to be nearer three to six months than two years; and if that is the case, we will find ourselves with a great many people whom we would like to put to work. We will know what kind of work we would like to have them do, but we will still be two years off from the time when they can do it, unless some of these preliminary steps are taken [see: Appendix One].[3]

1.4 Advance Notification of Contract Termination

Government top managers must be required to give notification of at least a year in advance to factories, laboratories, and bases when major projects are to be terminated. Such advance notification is essential for facilitating orderly change-over and avoiding chaotic conditions and crash programs. Pre-notification is needed to provide time to put conversion plans into operation before a facility is in danger of permanent closure and/or workers are forced to move away from a region where defense layoffs have occurred (see: Appendix Eight, p. 46).

The Government Accounting Office surveyed large establishments (those with 100 employees or more) which experienced a mass layoff or plant closure in 1983 and 1984. They found that the median length of notice provided to workers was only seven days. A recent Congressional Office of Technology Assessment report noted four advantages of advance notification for economic planning:

> ...1) it is easier to enroll workers in adjustment programs before they are laid off; 2) it is easier to enlist mangers and workers as active participants in displaced worker projects before the closing or layoff; 3) with time to plan ahead, services to workers can be ready at the time of layoff, or before; and 4) with enough lead time, it is sometimes possible to avoid layoffs altogether.[4]

1.5 Mandatory Occupational Retraining

Professional retraining is a particularly important matter for the managerial and engineering-technical occupations. Managers have become highly specialized, as required by the particular rules and modes of operation suitable for servicing the military. Thus, a

marketing manager who has had a long experience in military contracting is skilled in political-diplomatic requirements of that vocation, differing considerably from the skill necessary for selling to civilian customers in a mass market.

Engineers who have become accustomed to design and related operations that are carried out with relative indifference to cost must be fundamentally reoriented to the design problems which must be solved where cost minimizing and civilian reliability requirements dominate the scene. For these reasons, occupational retraining for managers and engineers who have had long service in military firms must be made mandatory as a part of economic conversion law (see: Appendix Eight, p. 53). Available evidence indicates that only a minority of *production* workers may be so specialized in their occupational skills as to require retraining to perform civilian work competently.[5]

The political and economic value of conversion legislation is to remove the "jobs" pressure from the debate on military policy (see: Appendix Three). Unless retraining for managerial and engineering-technical occupations is mandated as part of a conversion bill, the jobs pressure on military policy will persist because millions of people will not be equipped to perform engineering and mangerial tasks in the civilian sector. Professionals who have spent their careers working in the military economy have developed skills and modes of problem solving that while well suited for the military are often contrary to efficient operation in the civilian sector. The unsuccessful attempt by the military firm Boeing-Vertol to produce light rail vehicles for the Massachusetts Bay Transit Authority without first orienting engineering and managerial staffs to the civilian market is illustrative of the necessity for mandatory retraining.[6]

How much funding is needed to finance retraining? One indication is found by examining the number of engineers, scientists and technicians involved in military work. In 1983, about 32.4 percent of a total 754,491 engineers, scientists and technicians were involved in such work i.e. 244,220.[7] Some have proposed that $20 million would be sufficient to cover the costs of retraining and related planning. How far would funding at this level go? Assuming that defense cuts lead to layoffs of 10 percent of these workers or 24,000 layoffs, a funding base of $20 million would provide only $83 per scientific worker. This funding would not even begin to cover the cost of tuition at a community college for one month for these workers. Even pooling of these resources would not overcome these limitations. For example, what if a group of 50 scientists at a facility came together and pooled their funding? That would leave only $4,150 to hire a consultant or

university professor to make a few visits to a military facility. That expenditure does not even consider funds needed for marketing studies and retraining of blue collar defense workers. Rather, this exercise suggests that substantially more than $20 million dollars would be necessary to finance the necessary retraining during conversion. Consequently, conversion legislation should be designed with a flexible funding mechanism in which conversion is funded by the contractor at a rate determined by the company's ability to pay i.e. the size of its total military contracts.

1.6 Community Economic Adjustment Planning

Where military-serving industry, laboratories and bases are present in significant clusters, the characteristics of entire communities are subject to major reshaping as part of economic conversion. For example, conversion to civilian work of many industrial facilities will entail a significant reduction in the number of engineering-technical people needed, requiring a degree of relocation. In either event, major costs are entailed for the communities involved. Accordingly, funds should be made available for planning the necessary adjustment operations (see: Appendix Eight, pp. 47-48).

1.7 Decentralized Control of Alternative Use Planning by Management and Labor

There is no standardized formula or blueprint that can be universally applied for economic conversion planning. The work must be done with attention to the requirements of specific products and the capabilities and limitations of particular work forces, plant and equipment, surrounding infrastructure and resources. Accordingly, the operation of alternative use committees and related activity for conversion planning is most effectively carried out at the point of production, research or site of military employment (see: Appendix Eight, pp. 48-51). This does not in any way detract from the feasibility or importance of calling upon specialized skills from any other place to facilitate the work in hand. But whether or not specialists and consultants are hired, a remotely positioned centralized planning organization is very poorly suited for economic conversion planning.

Administration of planning in a decentralized fashion is far less expensive and would be more effective than centralized procedures. On the matter of cost, local responsibility avoids the inevitability large overhead costs of highly centralized operations. Conservatively estimated, the cost of reviewing plans for all military prime contractors alone is on the order of $500 million (see: Appendix Two). Who could competently carry out local planning tasks? The design of an industrial enterprise is not a function to which educational institutions and local governments are accustomed. Nor is it ordinarily within their competence. Because of their exposure to day-to-day production requirements, middle managers and trade union members would be far more effective in alternative use planning committees than local community planners and political representatives isolated from industrial life.

The participation of local and regional government officials in enterprise conversion planning would represent a potential barrier to productive economic conversion. Often, traditional economic planning by such groups has favored salvaging the industrial sites threatened by a plant's closure rather than conversion which saves a facility, its infrastructure and the attached work groups. These salvage operations often replace military facilities with industrial parks, real estate developments or other forms of employment which offer less pay than traditional military jobs or their blue-collar equivalents in manufacturing industry.[8]

Such traditional approaches to threatened military facilities can be expected when there has been no substantial advance planning for alternatives to plant closure or cutbacks. Here, the timing of conversion planning is critical. If planning funds are granted to prospective facilities only after an announced layoff or cutback, they will not have enough time to draw up workable plans, i.e. even though the money will be in hand, it will be in hand *two years too late* given the amount of time which is needed to plan for conversion. For this reason, mandatory occupational retraining and the creation of alternative use committees *with plans already on hand* before a plant shuts down and/or significant layoffs occur are both necessary.

The economic incentives for maintaining economic links to the Pentagon suggest why prime contractors have declined to plan for civilian conversion of defense facilities. The history of communities confronted with plant closings has shown that local

governments can usually be mobilized to do planning *after* layoffs are announced at which time it is too late to do much good (because of the planning time requirement).

Conversion legislation which fails to provide for "off-the-shelf" mandatory planning will encourage strategies of financial diversification that are serviceable for preserving the decision-making power of top managers and make competition for new plants more likely. There is no short cut to avoiding mandatory off-the-shelf planning; this is the only way to guarantee planning that saves a facility (both its jobs and capital equipment), rather than salvaging it piecemeal long after shutdowns and unemployment have occurred.

Some proponents of defense economic adjustment planning have argued that the Department of Defense is best suited to oversee the conversion process. If decision-making authority is centralized in the Defense Department, then it is unlikely that alternative use planning will be effectively integrated with the pursuit of national priorities requiring significant reductions in the military budget. In the past, the Defense Department has gone to great lengths to resist these reductions and there is no reason to expect a change in policy now. For example, on October 25, 1987, *The New York Times* reported on the Defense Department's attempt to orchestrate a political backlash against budget cuts:

> The Defense Department is planning extensive layoffs of civilian employees and deep cuts in the work of small contractors in an effort to develop a political backlash against Congress for budget cuts, according to Pentagon officials.
>
> ...Once the extent of the cuts become known, the officials expect, however, that labor leaders and laid-off workers would register strong protests to their Congressmen and would exert considerable pressure in an election year to have the cuts reversed [see: Appendix Three].[9]

Through the past twenty-five years the Department of Defense has been particularly resistant both to advanced preparation of alternative use plans, and a decentralized facility-based decision making process for developing these plans. In 1963, the Defense Department fought against the first offering of national economic conversion legislation proposed by Senator George McGovern and thirty Senate colleagues (S. 2274, National Economic Conversion Act, 88th Congress, 1st Session). The key provision of the McGovern Bill is Section 5:

> ...each defense contract or grant hereafter entered into by the Department of Defense...shall contain provisions effective to require the contractor to set up an industrial conversion committee which shall be charged with planning for conversion to civilian work arising from possible curtailment or termination of such contract or grant.[10]

A declassified document reporting on a meeting between Secretary of Defense Robert McNamara and Deputy Assistant Secretary of Defense Cyrus Vance on May 29, 1964, records that:

> ...SecDef [the Secretary of Defense] reaffirms his belief in the importance of economic adjustment planning under qualified leadership at the Federal Level. He feels that this is an Executive Branch matter and we should be very careful to avoid legislation that might impose restrictions such as those contained in Section 5 of the McGovern Bill.[11]

Secretary of Defense McNamara opposed advanced planning with the full knowledge that military contractors are not motivated to develop economic contingency plans to reduce their reliance on government spending. This finding was presented to McNamara on the very same day that he privately expressed his intent to block the McGovern Bill. The agenda prepared by Assistant Secretary of Defense Tom Morris for the May 29, 1964, meeting with Secretaries McNamara and Vance stated that:

> Surveys by SRI [Stanford Research International] and others indicate that most defense contractors are not highly motivated to develop economic plans to reduce their reliance upon Government spending. The more potent interest in such planning lies among community leaders. Hence we are wondering whether the ASPR [Armed Services Procurement Regulations] language should not be broadened to permit reasonable costs incident to contractor participation with state or community planning groups--particularly in communities such as Seattle, Los Angeles, San Diego, Long Island, etc. where a significant part of the economic base is now dependent upon defense employment..
>
> Such broadening of the ASPR would provide the contractor a positive incentive--and pressure from community leadership on the contractor--to take a positive part in economic adjustment planning.[12]

McNamara rejected this counsel. The Pentagon has been hostile to advanced planning for economic conversion ever since. In 1984, the Department of Defense testified against the Defense Economic Adjustment Act (then H.R. 425) sponsored by Representative Theodore Weiss (NY). This Bill incorporated advance planning. The following year the Defense Department's Office of Economic Adjustment issued a report rejecting economic conversion policy.[13]

1.8 Income Maintenance During Civilian Conversion

Even with blueprint-ready plans and schedules in hand there will be a significant time period needed to change over from military to civilian work. Under optimum conditions, months are required to set in motion even the best prepared plans. Moreover, it is prudent to understand that time is needed for discovery of error and correction. Accordingly, preparation for economic conversion should include income maintenance to all adversely affected employees. This can be done by rules that are socially validated by previous practice. For example, in the U.S. auto industry the combination of unemployment insurance and income support systems agreed to by managements and the unions have provided for as much as ninety percent of previous pay during a period of scheduled layoff. Such provisions do not preclude the use of unemployment time as the time during a layoff for professional retraining.(see: Appendix Eight, pp. 51-52).

1.9 Relocation Allowances

Compared with civilian-serving industrial plants, military-serving industrial units are often overloaded with administrative and engineering-technical people. There are also constraints on converting specialized military facilities (such as those used in nuclear testing). Therefore, geographic relocation is to be expected as part of conversion to civilian economy. The moving expenses for entire households can be substantial. Therefore, relocation allowances should be an integral part of economic conversion law (see: Appendix Eight, pp. 52-53).

1.10 A National Network for Employment Opportunity

Precisely because of the predictable requirement for major relocation of engineers, administrators and many production workers, a sensible part of economic conversion planning should be the formation of a national network for employment opportunity. This will be especially important to production workers and engineers of those facilities that are not readily convertible to civilian use. This situation is likely to arise for only the most unique military-related operations, e.g., remotely located facilities for testing warheads and rocket engines, and the production and stockpiling of unusually volatile and dangerous munitions. A national employment network should help to solve the employment relocation problems which will arise (see: Appendix Eight, pp. 46-47).

1.11 Capital Investment Planning by Government

Military spending, while only a small share of the Gross National Product, has employed large numbers of engineers, technicians and skilled production workers and represents a vast capital fund which could be used for investment in civilian alternatives. The basis for competitive economic growth has been seriously threatened by this diversion of financial, labor and technological resources towards military applications.[14] As a result, the simple economic diversification approach begs the question of how to build the foundations for new economic development in civilian industries.

The operation of a large military economy for more than forty years has led to major underinvestment in the facilities and services called infrastructure: roads, water systems, waste disposal operations, education, libraries, public health operations, parks, commmunication and transportation systems, etc. Reversing the neglect of these facilites and their staffs typically requires large capital investments. Detailed capital budget planning for these purposes by the local and national government bodies responsible for infrastructure facilities and operations will make a major contribution to competent conversion planning. The large markets that are opened up by infrastructure maintenance and renewal are part of the alternative product system towards which many military-industry firms, laboratories and bases can be reoriented. Hence, capital investment plans

by governments at all levels will comprise a major contribution toward defining new markets and jobs for converting factories, laboratories and bases (see: Appendix Eight, p. 46).

An increasing number of economic planners (local and regional) have analyzed the shortcomings of traditional economic planning methods used to retain or expand jobs in a region through industrial revenue bonds, tax breaks, rent subsidies and other incentives. These incentive programs are usually ineffective in shaping business location decisions, or result in a "beggar-thy-neighbor" policy in which development in one region comes at the expense of decline in another.[15]

Conversion legislation should not attempt to replace defense jobs lost in one region by "stealing them" from another. Rather than look to new start up firms, economic conversion (and accompanying redesign of facilities) can help sustain the existing productive base of a region by helping to generate *new kinds of jobs* in existing (and redesigned) manufacturing plants.

Such a production-based strategy is essential to guarantee well-paid jobs and reasonable replacements for salaries paid for out of military contracts (see: Appendix Four for data on wage levels of military workers in Massachusetts). In 1969, low wage industries accounted for 45.2 percent of total U.S. employment. However, by 1995 their share is expected to rise to over 52 percent.[16] Such trends can be reversed only by maintaining the industrial base of our economy and expanding the industrial production sector. The conversion of national military production can provide a solution to the problem of declining wage levels that comes with deindustrialization.

The redesign and conversion of the productive base represented by defense industries is not simply a matter of providing a cushion for a few well-paid defense workers. Rather economic conversion has become a general societal interest. In an era of civilian plant closings the defense industrial base is increasingly needed to help rebuild both civilian industry and the nation's crumbling infrastructure. The dramatic size of infrastructure investment needs sugggests the necessity for comprehensive conversion planning. A report by the Government Finance Research Center published in 1983 described the scope of the infrastructure problem:

> ...The Associated General Contractors of America estimates total public construction needs of $909.9 billion. Pat Choate, coauthor of *America in Ruins*, has estimated that $2.5 trillion to $3 trillion in public works investment is needed by 1995 just to maintain the existing levels of services. And the Urban Institute estimated that, due to neglect of the existing infrastructure, maintenance costs alone will shoot up to $860 billion over the next 15 years.[17]

Added to these costs is the $100 to $175 billion price tag required to clean up the Energy Department's plants producing nuclear weapons--these figures do not include other pressing needs for public investment in health, mass transit and other areas.[18]

Part Two

Diversification versus Conversion

2.1 Introduction

How is one to judge whether national legislation which uses the language of economic conversion would actually facilitate the reversal of the arms race? What kind of legislation would make conversion of defense facilities nationwide operational if a treaty for programmed, comprehensive disarmament were passed? How can Congress be convinced that it has the ability to make deep cuts in military budgets without major economic dislocation? The need for constraints on the operations of military-serving firms through legislative requirements for mandatory retraining, planning and advance notification is based on an analysis of why military firms can not be expected to voluntarily carry out these functions.

Some proponents of defense economic adjustment legislation argue that conversion need not include constraints; they believe that conversion can be achieved through diversification--a corporate financial strategy to enter new markets through the purchase of firms, or a community strategy to achieve economic stability by attracting new firms. Diversification may also mean retraining workers and managers for new product lines. But that is not the usual pattern that is followed. Industrial top managers have preferred to abandon less profitable facilities (and their labor force and communities) in favor of fresh start-up enterprises in new locations. In the case of military bases, the firm bias of the Pentagon top managers has been against advance planning for non-military alternatives. As a result, occupational retraining and alternative use planning for military base facilities has been initiated *after* base closure is already under way. This late start in economic planning has necessitated mass layoffs leading to personal and community upheaval. In sum, strategies of diversification do not reap the economic dividends of saving military-serving establishments for productive economic work or encourage the planning necessary to make disarmament politically viable in the vast majority of military prime contractors.

2.2 Conversion and Diversification in the Disarmament Context

Conversion requires that an establishment connected to a military research, training or production facility transfer its resources to new civilian investments so that it gradually reduces the establishment's defense output as the conditions of disarmament treaties are met or national defense budget cuts occur. As a primarily financial strategy, diversification allows defense production in any firm to continue because firms diversifying into civilian markets can do so by purchasing new civilian operations while leaving defense industrial facilities to cope with possible reductions in Pentagon orders by production cutbacks and job terminations. In the case of military bases and industrial establishments, diversification can mean:

> ...working with local economic-development officials to devise regional economic-development plans to encourage nondefense-dependent business to come to [a region].[19]

Diversification has also been take to mean:

> ...helping defense-dependent companies to use their existing technologies to produce nondefense products.[20]

Under the second definition, diversification could be seen as a way to help military firms increase the applicability of defense technology to meet civilian markets i.e. a way to increase the number of military spinoffs. However, military technology is increasingly applied and specific in character to military needs; it is increasingly of limited use for civilian markets. The number of "spinoffs" generated by "existing [defense] technologies" is therefore necessarily limited.[21] For this reason, economists studying military-serving establishments have argued that they must be *restructured* if they are to serve civilian markets. Restructured firms become competitive by retraining their production workers and engineers, making investments in research and development and rearranging plant and equipment as new product lines develop. This *restructuring* process is far more complicated than financial or product diversification. National conversion legislation must not be tailored to the assumption that the technological diversification process can be encouraged through economic incentives. The need for restructuring and the limited utility of incentives in encouraging production for civilian use is examined below.

2.3 Barriers to Civilian Diversification and Conversion: The Limits to Incentive Measures

Professor Seymour Melman of Columbia University has argued that the concentrated power of defense firms creates a serious obstacle to their conversion:

> Managers in military industry, bases and laboratories fear a loss of power and privilege that could be caused by a reversal of the arms race and drastic reductions in military spending. Pentagon-serving managers have markets that are guaranteed by the federal government. They direct the production of goods and services that are sold before they are produced...These positions of power and privilege would be diminished or eliminated if the arms race was reversed and military budgets reduced.[22]

Additional reasons help to explain why military contractors are not swayed by traditional economic incentives to diversify or convert towards civilian production. There are numerous obstacles which prevent firms (or discourage them) from producing for civilian markets. These obstacles apply both to conversion of new product lines in factories producing for both military and civilian markets as well as to factories producing solely for the military.

One major obstacle is that defense managers and engineers are not competent to design products, production systems and marketing strategies needed to serve civilian markets. For example, an early study published by the U.S. Arms Control and Disarmament Agency found that efforts by firms to enter non-defense and non-aerospace fields of business (through acquisition or internal product development) were discouraged by a lack of management commitment. Such commitment was absent because of a discouraging history of failure in commercial diversification efforts by defense firms, concerns that military planners would not welcome such diversification and the lack of commitment to diversification by the owners of defense firms or the financial community as a whole.[23]

The largest military-serving firms lack an economic incentive to diversify into civilian production because of the economic rewards for participating in defense work. By servicing the Pentagon, these firms are engaging in a low-risk operation. In a study published in the early 1980s, Jacques Gansler, a former Defense Department official and economist, found that most defense-contract money is awarded on a "sole-source basis"

and that less than eight percent of these contracts were awarded exclusively on the basis of price competition.[24] Today, the procurement process is more competitive but the incentives for doing military business remain. According to Richard Stubbings, a Pentagon budget examiner at the Office of Management and Budget for twenty years and author of *The Defense Game*,

> ...You can 'buy in' on contracts which means you can bid low deliberately on a contract in order to win it and then get reimbursed for the real cost that you generate later...You have an incentive for lying [about the real cost of the] original contract.
>
> Many contracts are awarded in defense not because somebody came in with a good bid but because some [Congressional representative] stepped in for his favorite company in his district.[25]

The Pentagon also subsidizes a large portion of the costs of operation, further discouraging military-serving firms to diversify into civilian work. According to Gansler, about one-third of the plant space and equipment in the aircraft industry is government owned and often located in the same area with privately owned plants and equipment.[26] The Pentagon is also empowered by law to supply advance grants of funds, progress payments on work in process (even before delivery) and "guarantees on loans that might be obtained by the military-industry firm from a private bank or similar institution."[27]

These economic supports and subsidies are reflected in recent reports on profits in the defense industry. A U.S. Navy commissioned study carried out by RRG Associates surveyed data from thirty-three major corporations, which together collected 52 percent of the money awarded to business firms by the Defense Department and which also have commercial branches. In the last year covered by the study, 1985, these corporations earned a 22.4 percent return on their assets from military contracts, compared with 10.1 percent on commercial products that employ similar manufacturing techniques.[28] These high profit levels create further incentive structures which constrain management initiatives for conversion or even civilian diversification. Early studies by the U.S. Arms Control and Disarmament Agency in 1966 described this problem as follows:

> Scientists, engineers, and production workers of defense firms tended to make more money than their counterparts in the commercial operations of the same company. This pay differential acted as an obstacle to...attracting...people from the defense to the commercial side of the business.

More recent studies would be useful. However, there is little reason to believe that strong wage incentives do not still exist that make defense work more attractive for many than its civilian counterpart. This is especially true when many engineers and production workers have lost their jobs from civilian industrial plant closings. Scientists have also found military research work attractive as civilian research and development budgets have grown slower than defense agency funds in recent years.[29]

Other barriers to exit from the military economy are also operative. A cost-plus business (which has a guaranteed profit rate as a percentage of cost) doesn't have to watch what it pays out (including labor costs), unlike cost-sensitive firms. The rise of the military-industrial firm in the post-War era created a pattern in which this kind of firm acts as a submanagement under the central direction of the Pentagon as top manager. This is true in the straight-forward sense that the Pentagon decides what the submanagement produces, how this firm accumulates capital, how it designs and organizes production, the quantity of the product produced, the price charged for the product and the mode of distribution of the product.[30]

The growing dependency of many mutli-division prime contractors on the Department of Defense highlights the economic barriers to conversion. For example, the following data show the growing defense dependency of McDonnell Douglas:

Net Value of Prime D.O.D. Contracts
Per Fiscal Year as a Proportion of Annual Sales.[31]

1975	17%
1976	21%
1977	27%
1978	17%
1979	11%
1980	14%
1981	16%
1982	35%
1983	55%
1984	67%

537

In Massachusetts, military dependency among the state's top five military contractors grew from 1977 to 1984. So did industrial dependency on the military in the state (see: Appendices Five and Six).[32]

Other economic barriers to exit from defense work further complicate attempts to encourage military diversification through economic incentives. The prime military contractor's research, design, and production operations are indifferent to cost. Military-industrial firms do not follow the pattern of cost-minimization that is common in and critical to civilian firms.[33] The impact of this cost increasing behavior on conversion prospects can be seen in the aerospace industry:

> ...the aerospace firm, accustomed to operating with management methods that require twice the manpower than is conventional in civilian industry, are at an automatic cost disadvantage should they attempt to redirect the overblown managerial staff to civilian products and markets.[34]

Meeting the military performance criteria of the Pentagon leads to high concentrations of engineers in defense firms. This cost is subsidized by the military. To compete in civilian markets, engineering costs would have to be reduced by drastic cutbacks in staffs. Beyond this, military engineers, accustomed to designing complex weapons systems are handicapped in producing for civilian markets. One of the most common problems in the defense industry has been the overdesign of embryonic commercial products.[35] Military engineers' lack of experience in commercial design also tends to lengthen both development time and costs for military firms making them less competitive than civilian counterparts in commercial markets.[36] Among defense *sub-contractors*, such obstacles towards conversion are less severe.

Given the incentives embedded in defense work, new government programs offering planning grants and retraining assistance would not tempt more than a handful of defense firms to even consider diversification into civilian work as long as the military contracts continue to flow. Defense managers have preferred the disolution of establishments (factories) as functioning industrial facilities to their maintenance as converted civilian operations.[37] Their corporate strategies for survival in an era of reduced military spending may push them towards purchasing civilian firms, but their short-term orientation has prevented them from salvaging the skills of their defense-trained engineers and blue collar workers.[38]

The distinction between successful conversion and the economic vitality of a firm that may come with diversification is clear. An industrial desert was created at the B-1 bomber division of Rockwell International bordering the Los Angeles airport in 1979 after President Carter halted production of the B-1 bomber. The overwhelming majority of the 5,000 production workers, 5,000 engineers and 4,000 administrators were discharged. At the same time, the financial affairs of the parent firm, Rockwell International, were maintained in excellent order because of the variety of its investments and generous termination allowances granted to the firm by the Department of Defense. Financial diversification within multidivisional and multiproduct firms can proceed with great success, including enlarged profitability, even as production and employment declines in particular divisions that serve the military.[39]

Communities dependent on nuclear production or testing facilities whose physical plant is not directly convertable to civilian use may find that diversification, in the sense of bringing in new businesses, may be the only hope for providing job replacements for their military dependent workers. But even these communities will require strong conversion legislation that will provide retraining and advance notification for proper planning to assure an orderly transition of the nuclear-dependent work forces. These nuclear-dependent communities will benefit from conversion legislation which encourages new start-up firms. But the growth of these new ventures will be also be advanced by public infrastructure investments and the conversion planning in neighboring universities and military R&D laboratories. It may be that the federal government is the only party willing to take the risk associated with investing in communities associated with hazardous nuclear production materials.

Part Three

Analysis of H.R. 813 (100th Congress, 1st Session)

"Defense Economic Adjustment Act"

Introduced January 28, 1987

3.1 Job Security for Workers

The Defense Economic Adjustment Act (see: Appendices Seven and Eight) was introduced by Congressman Ted Weiss after consultation with trade unions, industrial engineers and economists familiar with the macroeconomic and microeconomic details of military economy. The Weiss Bill conforms most fully to the criteria necessary for successful conversion policy, although certain portions of the bill might be strengthened.

The Act attempts to address management resistance to conversion by providing strong incentives for civilian production planning:

> It is possible to use management's desire to remain in the business of military production to press them into planning for conversion. This can be done by simply making the establishment of a conversion planning committee a prerequisite for eligibility for military contracts. Any firm that wished to remain in the military business would thus have to begin contingency planning for eventual conversion.[40]

The Weiss bill makes access to defense contract awards dependent on participation in conversion planning. Under the Bill, the receipt of defense contracts and ability to export military products are made contingent upon a contractor's payment into an "economic adjustment fund" an amount equal to 1 and 1/4 % per year of the value of the contractor's gross revenue on its military sales.[41]

The Weiss Bill includes provisions which significantly reduce the risk that displaced defense workers will have to relocate or find jobs in new establishments. The Bill requires the Secretary of Defense to provide one year's advance notice of changes in procurement or contracts leading to layoffs. This notification forms the basis for listings of

communities eligible for planning assistance; listings to be published semiannually. Assistance is "directed to those communities which are most vulnerable economically to reductions in defense expenditures."[42] The Bill provides for community economic development assistance, a pool of funds which can be used to help communities start up new firms linked to a converted facility through "incubators" or strengthen the regional economy through technology transfer programs (e.g. in universities) which help modernize industrial facilities.

Title Three of the Weiss Bill, describing the role of the Alternative Use Committees, states that funding for planning, market research and the employment of specialized personnel "shall be paid from funds derived from the defense contract or military base operating expenses."[43] Thereby funds are made readily available to devise detailed contingency plans which can be put into operation once facilities are notified of defense cutbacks or other actions leading to layoffs.

The combination of readily available funding and pre-planning avoids the problem of a lag time between the announcement of impending layoffs or facility closure *and* the availability of funding for conversion planning. Workers displaced as a result of defense cutbacks are eligible for adjustment benefits for up to two years following their displacement. These benefits maintain a worker's income at a level of 90% of the first $20,000 and 50% of the next $5,000 that the worker had been earning as well as pension credit and benefits as if still employed. The Weiss Bill also guarantees the maintenance of health, disability or life insurance coverage.

Conversion plans and retraining programs are designed to increase the likelihood that workers displaced from a defense facility are able to re-enter that facility as civilian workers with income and benefits comparable to what they had earned in the past. Section 304 (a) of the bill states that conversion plans should be designed:

> ...to maximize the extent to which the personnel required for the efficient operation of the converted facility can be drawn from personnel with the types and levels of skill approximating skill levels and types possessed by civilian personnel employed at the defense facility prior to its conversion.[44]

Section 304 (b) states that no conversion plan:

> ...shall be approved by an alternative use committee unless the plan provides for extension of wage, labor contract provisions, and other benefits to workers at a defense facility until conversion to non-defense-related operations is completed.[45]

Section 402 (a) stipulates that workers are provided with "retraining for civilian work providing pay and status comparable to the employment from which such worker was displaced."[46]

The Weiss Bill's mandatory planning, funding, and retraining provisions significantly increases the likelihood that the integrity of the trade union bargaining unit will be maintained at facilities threatened by defense cutbacks. The concentration of skilled workers in defense dependent facilities and regions can provide the labor supply for an expanded civilian economy. The Weiss Bill encourages planning for the demand for such labor by studies of local needs for capital investment in transportation, housing, education, health care, environmental protection and renewable energy resources.[47] However, the bill does not clearly define what capital would be available for public investments in these areas or what planning vehicle would be best suited to make an assessment of local needs in a decentralized fashion comparable to facility-based planning performed by the alternative use committtees.

3.2 Planning for Arms Reductions

By providing security for military workers, the Weiss Bill helps weaken the political barriers to mutually agreed, programmed arms reductions. These barriers arise when communities threatened by defense cutbacks turn to their legislators to preserve military contracts that represent the livelihood of thousands of workers. The Pentagon also actively attempts to mobilize workers dependent on its payroll against military budget cuts (see: Section 1.7). The Weiss Bill addresses this problem by providing for the economic

security of threatened workers and the development of contingency plans before layoffs occur. The bill formalizes the performance of conversion planning well in advance of need.

3.3 Summary

Measured against the criteria necessary for successful conversion planning, the "The Defense Economic Adjustment Act" sponsored by Representative Ted Weiss of New York provides the mechanism needed to insure job security for defense workers and the orderly transfer of military resources to civilian needs. The Weiss Bill provides the planning funds, mandatory alternative use committees and retraining requirements needed to successfully convert military facilities. The Weiss Bill's provision of job security for military base employees may be deepened by explicitly extending its provisions to cover U.S. foreign military bases that may face layoffs or closure in response to budget cutbacks.

The Weiss Bill can also be strengthened by providing language that empowers local governments and planning authorities comprised of community leaders to carry out local capital budget planning. Investment in public infrastructure projects will help create and define new markets and jobs for both converting firms and civilian enterprises. The tremendous investments needed in new housing, bridges, sewers, mass transit and the like ($3,000 billion+ for the U.S. as a whole) have created an immense problem in just defining the state of needed inventory and disrepair of the nation's infrastructure. In order to make such quantitative and qualitative assessments, the appropriate county, city and state government planning offices must be involved in a decentralized planning effort to determine investment priorities. This local planning effort, in parallel with marketing efforts by alternative use committees, will be the most cost effective and efficient way to determine what needs to be repaired, rebuilt or rehabilitated.

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NOTES

1. On General Dynamics, see: Elizabeth Sherman, "Saving Quincy Shipyard," *Plowshare Press*, Vol. 12, No. 1, Winter 1987. On McDonnell-Douglas, see: Joel Yudken, "Conversion in the Aerospace Industry: The McDonnell-Douglas Project," in *Economic Conversion: Revitalizing America's Economy*, edited by Suzanne Gordon and Dave McFadden, (Cambridge, MA: Ballinger Publishing Co., 1984).

2. James Baird, "A Network Model of the Conversion Process," in *The Defense Economy*, edited by Seymour Melman, (New York: Praeger Publishers, 1970).

3. Letter from David C. Prince, Vice President, General Electric Company, Schnectedy, New York, to Ernest Kanzler, War Production Board, Washington, D.C., April 28, 1943. Records of the War Production Board, Record Group 179. U.S. National Archives, Washington, D.C.

4. See: Economic Policy Institute, "Advance Notice: When Plants Close," *AFL-CIO News*, Vol. 33, No. 23, June 4, 1988. Four states have laws which provide some form of advance notice for workers, and twelve other states are presently contemplating such legislation. See: "Labor Letter," *The Wall Street Journal*, April 26, 1988.

5. See: Seymour Melman, *Profits Without Production*, (New York: Alfred A. Knopf, 1983).

6. *Ibid.*, pp. 253-259.

7. Estimates prepared by Employment Research Associates, Lansing, Michigan.

8. See: Barry Bluestone and Bennett Harrison, *The Deindustrialization of America*, (New York: Basic Books, 1982).

9. Richard Halloran, "Pentagon Plans to Lay Off Civilians as It Cuts Budget," *The New York Times*, October 25, 1987, pp. 37-39.

10. Quoted from S. 2274. "National Economic Conversion Act," 88th Congress, 2nd Session.

11. Item No. 1 in "Notes on Discussion with Secretaries McNamara and Vance - 29 May 1964," signed by Thomas D. Morris, Assistant Secretary of Defense for Installations and Logistics. Thomas D. Morris papers. Box No. 1. Folder "January 1963 - Decmber 1964." John F. Kennedy Library. Boston, Massachusetts.

12. Quoted from "Agenda for Discussion with Secretaries McNamara and Vance - 29 May 1964." Thomas D. Morris Papers. Box No. 1. Folder "January 1963-December 1964." John F. Kennedy Library. Boston, Massachusetts.

13. Office of Economic Adjustment, U.S. Department of Defense, *Economic Adjustment/Conversion*, (Washington, D.C.: The Pentagon, July, 1985).

14. See: Melman, *Profits without Production*, op. cit.

15. Bluestone and Harrison, op. cit.

16. Lucy Gorham, "The Growth of Low Wage Industry: Harbinger of Vanishing Opportunity?," *The Entrepreneurial Economy*, Vol. 3, No. 2, August 1984. See also: Bennett Harrison, Chris Tilly and Barry Bluestone, "The Great U-Turn: Increasing Inequality in Wage and Salary Income in the U.S.." Paper presented to the Fortieth Anniversary Symposium of the U.S. Congressional Joint Economic Committee, *The American Economy in Transition*, Washington, D.C., January 16-17, 1986.

Nicholas S. Perna reports:

> ...industry mix has had a negative effect on average compensation since the late 1960s. The shift in the industrial compensation of jobs has reduced average compensation by about 1 percent relative to 1978 and 3 percent compared with 1968...The job share of other high-pay sectors (mining, transportation and public utilities) has also declined, but manufacturing has had the largest negative impact on average pay. Furthermore, some of the

decline in those other sectors is linked to manufacturing; for example, there is less need for U.S. electricity when imports of manufactured goods replace domestic production.

See: Nicholas S. Perna, "The Shift from Manufacturing to Services: A Concerned View," *New England Economic Review*, Federal Reserve Bank of Boston, January-February 1987, pp. 36-37.

17. *Building Prosperity: Financing Infrastructure for Economic Development*, (Washington, D.C. : Government Finance Research Center, October 1983).

18. "$100 Billion Seen for Atom Cleanup," *The New York Times*, March 12, 1988; Matthew Wald, "Cleanup Estimate for A-Bomb Plants is Called Low," *The New York Times*, July 14, 1988.

19. Representative Gejdenson as quoted in Robert A. Hamilton, "Arms and the State," *The New York Times*, Connecticut Weekly Section, March 2, 1986.

20. *Ibid.*

21. See: Melman, *Profits without Production*, *op. cit.* A recent report by the U.S. Congress, Office of Technology Assessment found that "excessive reliance on defense applications [of superconductor technology] applications could slow the pace of commercial superconductor products..." See: Bob Davis, "U.S. Agency Sees Japanese Firms Ready to Win Superconductor Products Race," *The Wall Street Journal*, June 20, 1988.

22. Seymour Melman, "An Economic Alternative to the Arms Race: Conversion from Military to Civilian Economy," pamphlet, Sane Education Fund, Washington, D.C., 1987.

23. *Defense Industry Diversification: An Analysis with 12 Case Studies*, (Washington, D.C.: United States Arms Control & Disarmament Agency, January 1966), p. vii; Melman, *Profits Without Production*, *op. cit.*

24. Jacques Gansler, *The Defense Industry*, (Cambridge, MA: MIT Press, 1980), p. 2.

25. Richard A. Stubbing, quoted on National Public Radio *Morning Edition*, June 23, 1988 on Pentagon procurement scandle. See also, Richard A. Stubbing, *The Defense Game*, (New York: Harper & Row Publishers, 1986). Under the Navy's new procurement practices implemented under former Navy Secretary John F. Lehman (1981-1987):

> ...Navy contracts are now far more likely to be awarded competitively than they were at the outset of the Administration. Most Navy procurements are now competitively bid. Second sources were sought for weapons that were previously produced by a single company...
>
> ...when new weapons enter the advanced stages of development, contracts are now likely to fix prices at predetermined levels, leaving the contractors to pay heavy penalties if costs rise as engineers continue to work on the systems. In exchange for passing on the risk, the Navy agrees to higher profits for companies that keep their programs within budgets.

See: John H. Cushman, Jr., "Navy Has Made Dramatic Shifts In Procurement," *The New York Times*, June 24, 1988.

26. Gansler, *ibid.*, p. 3.

27. James W. Kuhn, quoted in Seymour Melman, *The Permanent War Economy*, (New York: Simon & Schuster, 1974), p. 42. This study by Melman also reports that in 1971 defense contractors were able to earn half a billion dollars in interest from banks by holding the government's payments in their bank before tardily paying their bills.

28. Fred Kaplan, "Defense Profits are double commercial profits, study says," *Boston Globe*, May 13, 1987.

29. *Defense Industry Diversification*, op. cit. On plant closings, see: Bluestone and Harrison, *op. cit.* On the militarization of R&D and its consequences, see: Robert Krinsky, "Swords and Sheepskins: Militarization of Higher Education in the United States and Prospects of its Conversion," *Bulletin of Peace Proposals*, Vol. 19, No. 1, 1988 and Federation of American Scientists, *Public Interest Report*, Vol. 39, No. 7, September 1986.

30. See: Melman, *Pentagon Capitalism*, (New York: McGraw Hill, 1970).

31. *100 Companies Receiving the Largest Dollar Volume of Military Prime Contract Awards*, various Fiscal Years, U.S. Department of Defense, Washington, D.C.; McDonnell Douglas Annual Reports, Standard Corporate Description, Standard & Poors, New York.

32. Jonathan Feldman, "Converting the Military Economy through the Local State: Local Conversion Prospects in Massachusetts," *Bulletin of Peace Proposals*, Vol. 19, No. 1, 1988. This pattern also extends to Connecticut. In the 1980s, shipments to the Department of Defense increased steadily when measured as a proportion of total industrial shipments in the state:

1976	13.5%
1977	13.3%
1978	10.4%
1980	12.1%
1981	13.5%
1982	14.6%
1983	15.2%

Source: *Shipments to Federal Government Agencies*, various years, Current Industrial Reports MA-175, U.S. Department of Commerce, Washington, D.C.; *Annual Survey of Manufactures*, various years, U.S. Department of Commerce, Washington, D.C.

33. Melman, *Profits without Production*, *op. cit.*

34. Melman, *Permanent War Economy*, *op. cit.*

35. *Defense Industry Diversification*, *op. cit.*, p. 45.

36. *Ibid.*

37. See Note No. 1 and Jay Finegan, "A Farewell to Arms," *Inc.*, June 1987.

38. On Grumman, see: "Grumman's New Flight Plan," *Business Week*, February 1, 1988.

39. Seymour Melman. "Strategic Factors in Economic Conversion." Testimony by Seymour Melman to the Subcommittee on Economic Stabilization of the Committee on Banking, Finance and Urban and Affairs, U.S. House of Representatives, June 28, 1988.

40. Lloyd J. Dumas, "Making Peace Possible: The Legislative Approach to Economic Conversion," in Gordon and McFadden, *op. cit.*, p. 76.

41. H.R. 813, Defense Economic Adjustment Act, Title V, 100th Congress, 1st Session, pp. 26-27, reprinted in Appendix Eight on pages 54 to 55 of this briefing paper.

42. Title II, *ibid.*, p. 13 [Appendix Eight, p. 48].

43. Title III, *ibid.*, p. 16 [Appendix Eight, p. 49].

44. Title III, *ibid.*, p. 17 [Appendix Eight, p. 50].

45. Title III, *ibid.*, p. 18 [Appendix Eight, p. 50].

46. Title IV, *ibid.*, p. 20 [Appendix Eight, p. 52].

47. Title I, *ibid.*, p. 9 [Appendix Eight, p. 46].

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APPENDIX ONE

The Need for Two Years Planning Time

Log No. 71878
Class No. 962.1

GENERAL ELECTRIC COMPANY
SCHENECTADY, NEW YORK

DAVID C. PRINCE
VICE PRESIDENT

April 28, 1943

Mr. Ernest Kanzler
War Production Board
Washington, D. C.

Dear Mr. Kanzler:

While no one could disagree with the necessity of winning the war first, there is a very general inclination to under estimate the length of time it takes to proceed from the conception stage to the tooling stage for any product. I have a feeling that we are not devoting enough of that kind of effort, even to the war program itself.

The very least time during which a new product can be conceived, models made and tested and pilot plant production initiated is of the order of two years. I don't remember your expressing yourself regarding how much notice you think we shall get of the end of the war. Personally, I would expect it to be nearer three to six months than two years; and if that is the case, we will find ourselves with a great many people whom we would like to put to work. We will know what kind of work we would like to have them do, but we will still be two years off from the time when they can do it, unless some of these preliminary steps are taken.

This is a battle which I have been fighting during my entire business life. It is never possible to get production men to see that priorities of the very highest order must be given to a very limited amount of work for long-range things. I am probably talking about a good deal less than 1/10 of 1 per cent in terms of the effort of the country, but that 1/10 of 1 per cent will make the difference of a great many months in concluding the war and if anything up to two years in making the conversion back from war to peace in those industries affected.

Luckily, in the general case the last current model can be replaced in production, and such cases will take care of most of the people. However, in specific

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cases that will not be so. Take any of our airplane or explosive factories, for example. The management of any of these companies must cast about for some alternative product and begin now doing the experimental work on it; and this work must be pressed hard if the results are to be available by the end of 1944 for even pilot production. Shipbuilding is in nearly as bad case, although not quite because it will probably require nearly two years to make up the shipping losses.

Outside of these major categories, I know that there are numerous spots where a cutting back of a war order will cause unemployment, right now, representing an actual loss in our ability to support the war effort because we have no new war products ready to go; and in many cases this loss is irreparable, because we cannot even devote the released productive capacity to needed civilian requirements.

Personally, I feel that recognition of this situation and action based upon that recognition will promote the war effort and will, in addition, have a very real favorable effect upon morale.

Sincerely yours,

David C. Prince

DAVID C. PRINCE

DCP:MEG

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APPENDIX TWO

Estimated Cost of Centralized Conversion Planning[1]

by Seymour Melman and Lloyd J. Dumas*

Suppose the evaluators were to review the conversion plans of (35,000) prime contractors. There would thus be roughly 35,000 plans to be reviewed every two years. The minimal staff of professionals needed for the serious evaluation of any given detailed conversion plan would be about four people (e.g. an economist, an engineer, an accountant, and an organizational management specialist). Each team would have to spend at least two weeks at the facility in question, with perhaps a week more required for report writing. There would thus be about a three-week cycle time. Assuming a 48-week work year, one team could at most evaluate about sixteen conversion plans per year. Therefore some 2,190 teams are required (35,000/16), for a total professional staff of about 8,750. Assuming a support staff of 4,000 and an administrative staff of perhaps 1,000, total staffing requirements would be roughly 13,750 people.

Remembering that nearly two thirds of the staff are professionals, $25,000 per year (including fringe benefits), is a reasonable yet conservative estimate of average salary. Annual salary expense would hence be $343,750,000 ($25,000 X 13,750). Travel costs would add roughly another $148,000,000. Thus, total personnel and travel costs alone would be roughly $490,900,000 per year.

* Seymour Melman is Chair of the National Commission for Economic Conversion and Disarmament and is Professor of Industrial Engineering Emeritus at Columbia University in New York. Lloyd J. Dumas is Professor of Political Economy, at the University of Texas at Dallas and a member of the National Commission for Economic Conversion and Disarmament.

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NOTES

1. Source: Adapted from Seymour Melman, "Problems of Conversion from Military to Civilian Economy: An Agenda of Topics, Questions and Hypotheses," Bulletin of Peace Proposals, Vol. 16, No. 1, 1985, p. 13.

APPENDIX THREE

The Pentagon Plans a Political Backlash

Pentagon Plans to Lay Off Civilians as It Cuts Budget

By RICHARD HALLORAN

Special to The New York Times

WASHINGTON, Oct. 24 — The Defense Department is planning extensive layoffs of civilian employees and deep cuts in the work of small contractors in an effort to generate a political backlash against Congress for budget cuts, according to Pentagon officials.

The officials said that 100,000 to 150,000 people, or more than 10 percent of the department's civilian workforce, would be laid off if provisions of the recently adopted budget-balancing law are put into effect on Nov. 20.

In addition, officials knowledgeable about budget plans said the military services would slice more than $2 billion from contracts with local companies that paint barracks, maintain and clean buildings and operate support services on bases around the country.

An Election-Year Gambit

Further, the officials said, the services would delay maintenance on ships, tanks, aircraft and equipment that is done by contractors, causing more layoffs. Shipyards, which do little shipbuilding today and rely mostly on repairs, would be especially hard hit, they said.

Purchasing of spare parts, a key to the readiness of the forces, would also be cut between 25 and 50 percent, the officials said. Consequently, they said, employment in industries making the parts would be affected.

Once the extent of the cuts becomes known, the officials expect, however, that labor leaders and laid-off workers would register strong protests to their Congressmen and would exert considerable pressure in an election year to have the cuts reversed.

Beyond an attempt to put indirect pressure on Congress, officials said, the military services are seeking to protect training and deploying forces around the world as much as possible from budget cuts. But some such operations would be reduced, they said.

Plans Are Being Drafted

Official spokesmen for the Defense Department declined to comment on the prospective cuts, saying no final decisions had been made. They noted that President Reagan was scheduled to meet with Congressional leaders in an effort to reduce the deficit without, they said, cutting military spending.

But Pentagon officials familiar with budgetary matters said the cuts had been drafted and were being submitted to the Secretaries of the Army, Navy and Air Force, along with senior military leaders in those departments, for approval.

Whether the layoffs would be spread evenly around the country or would be imposed selectively to maximize the political effect or to lessen the deterioration in military readiness could not be determined.

The three states with the largest number of Defense Department civilian employees are California, with 135,000, Virginia, with 106,000, and Texas, with 63,600. Northern Virginia is the site of the Pentagon while southern Virginia, around Hampton Roads, has many bases.

In New York, according to the latest count by the Pentagon, the Defense Department employs 19,700 civilians; in New Jersey, 27,600, and in Connecticut, 4,900.

> Military officials hope to generate a political backlash against Congress.

Reprinted from The New York Times, October 25, 1987.

APPENDIX FOUR

Comparison of Massachusetts Annual Wages Per Employee

Comparison of Massachusetts annual wages per employee in defense-linked industries and average annual pay in Massachusetts (1983).

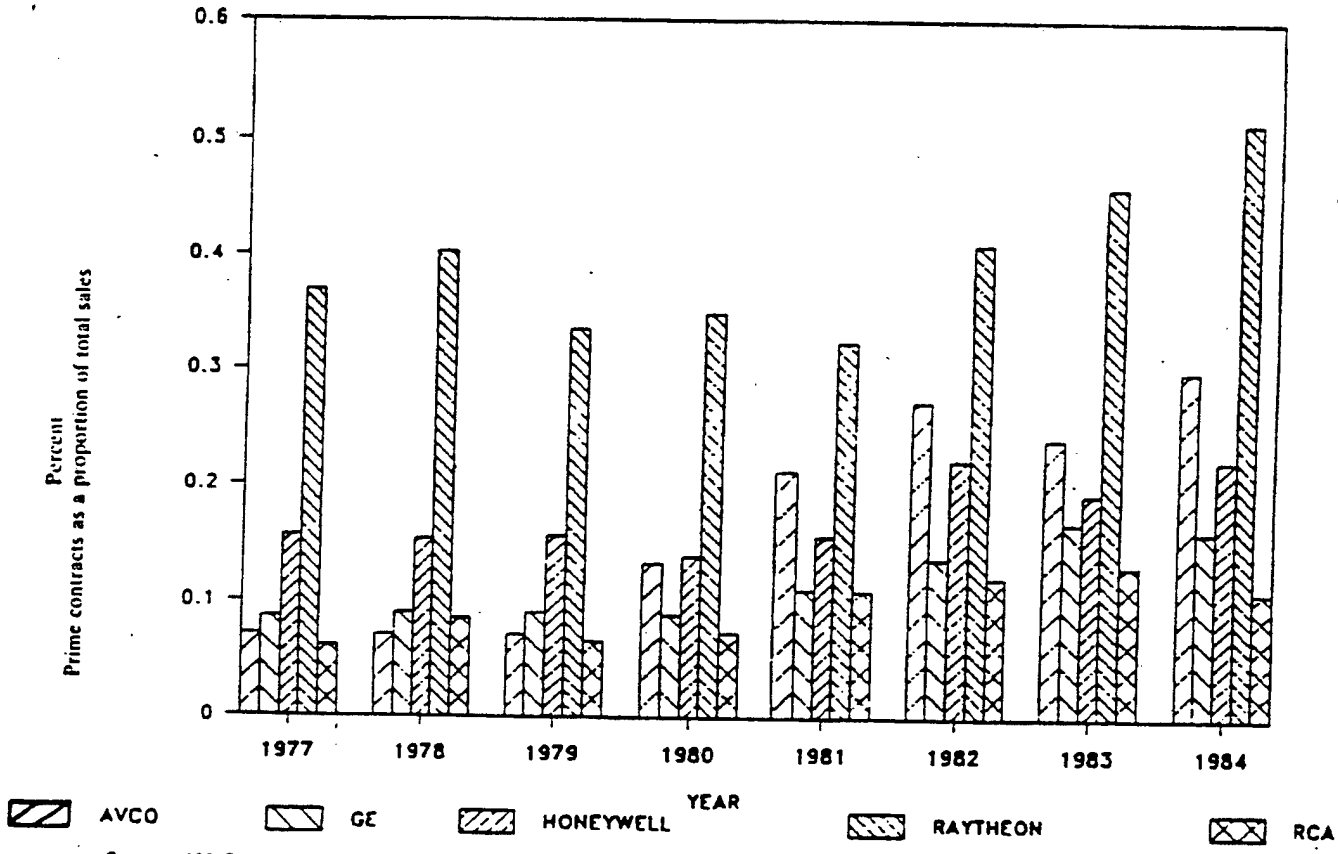
SIC code	Title	Annual wages per employee (Dollars)
3671	Electron tubes, receiving type	20,582
3673	Electron tubes, transmitting	25,816
3674	Semiconductors and related devices	25,025
3721	Aircraft	29,365
3724	Aircraft engines and engine parts	30,597
3728	Aircraft Equipment, nec	23,244
3731	Shipbuilding and repairing	24,103*
3761	Guided missiles and space vehicles	27,344
Average Annual Pay		17,347

*National Annual Wages only.

Source: *Employment and Wages: Annual Averages 1983*, Washington, D.C.: US Department of Labor, May 1985; *The State & Metropolitan Data Book*, Washington, D.C.: US Department of Commerce, April 1986.

APPENDIX FIVE

Military Dependency of Top Contractors with Operations in Massachusetts



Source: *100 Companies Receiving the Largest Dollar Volume of Military Prime Contract Awards*. Fiscal Years 1977-1984. US Department of Defense. Washington. DC: Data on total corporate sales collected from company annual reports. *Standard Corporate Description*. Standard & Poors. New York. 1987 and Stock Reports: New York Stock Exchange. Standard & Poors.

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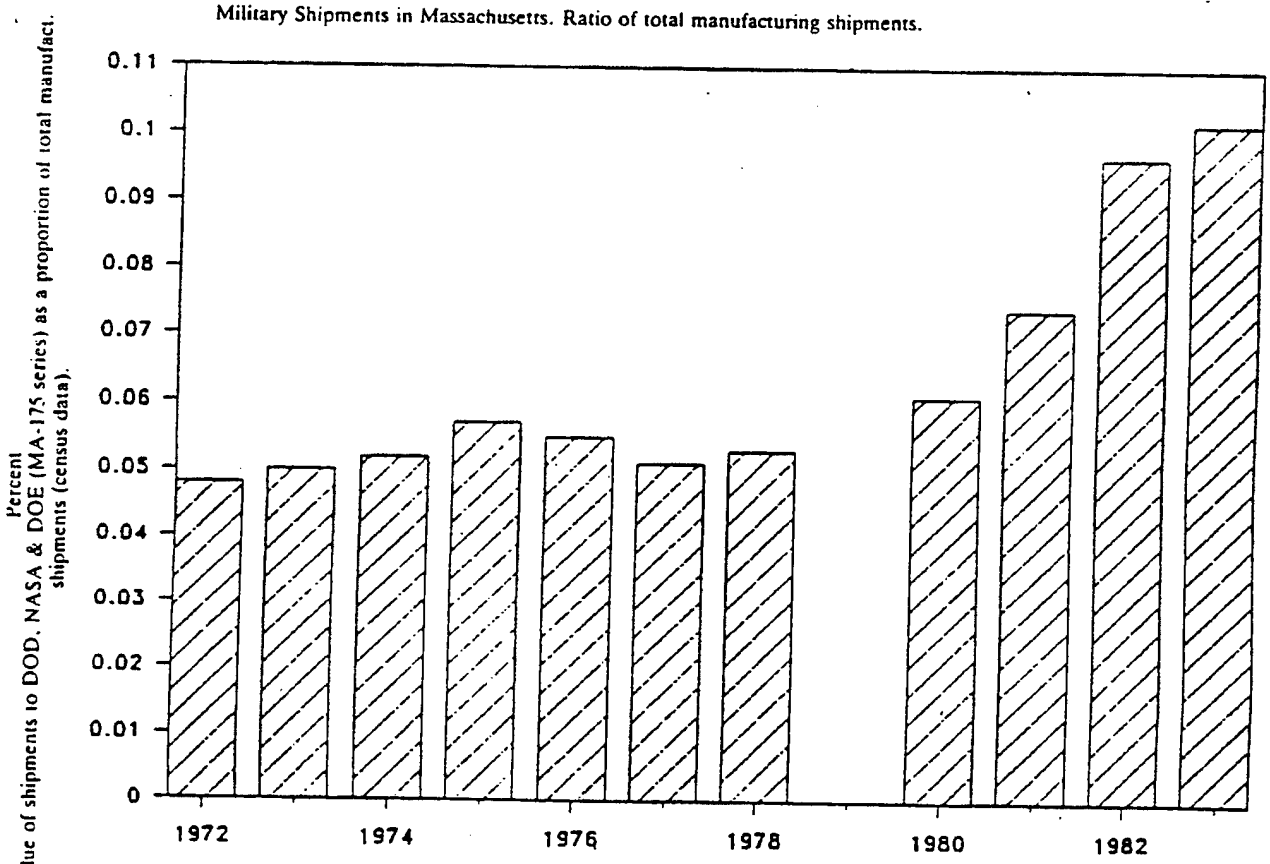
APPENDIX SIX

Massachusetts Military Shipments to the Department of Defense as a Proportion of Total Manufacturing Shipments

Military Shipments in Massachusetts. Ratio of total manufacturing shipments.



Source: *Shipments to Federal Government Agencies*, various years. Current Industrial Reports MA-175. US Department of Commerce. Washington, DC; *Annual Survey of Manufactures* and *Census of Manufactures*, various years. US Department of Commerce. Washington, DC.

*No state census done in 1979.

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APPENDIX SEVEN

H.R. 813: Defense Economic Adjustment Act

SUMMARY

Introduced by Representative Ted Weiss (D-NY)

January 28, 1987

The Defense Economic Adjustment Act makes the federal government responsible for supporting economic conversion planning in the defense sector. The bill's main provisions include:

1. One year prenotification of plans to cut back or terminate a defense contract or military base:

2. Ongoing alternative use committees in military-related facilities to develop detailed conversion plans;

3. Planning assistance, income support and retraining programs for opportunities and workers while a conversion is underway;

4. A federal Defense Economic Adjustment Council to provide conversion guidelines, resources, and overall coordination.

Following is a more detailed summary of the Act's provisions:

Title I: Defense Economic Adjustment Council

Title I establishes this federal level coordinating body for conversion planning, procedures and support, and gives it four specific functions:

1. The Council transmits a one-year prenotification of any Defense Department action on a contract or base which will affect employment. This information is given to the appropriate local officials and alternative use committees.

2. The Council directs concrete plans for non-defense public projects "addressing vital areas of national concern," such as environmental protection and renewable energy resources.

3. The Council acts as a clearinghouse on any existing federal programs relevant to the affected community or workforce.

4. The Council prepares and distributes a Conversion Guidelines Handbook, a complete "how to" book on converting from defense to civilian production.

The Council will have twenty-one members, including nine from the executive branch, and six each from nondefense businesses and from labor unions, and staff support from and Office of Economic Adjustment.

Title II: Community Economic Adjustment Planning

Any community "substantially and seriously affected" by defense cutbacks is eligible for federal planning and economic adjustment assistance, with specific eligibility requirments to be developed by the Council. This Title also contains a provision for reselling excess property or facilities to the affected community at a "fair price."

Title III: Alternative Use Committees

An alternative use committee must be established at every defense facility employing at least 100 people, and will have at least eight members, evenly split between labor and management. A proportionate number of non-voting community members can also be included.

Each committee is to develop detailed plans for converting the facility and re-employing the work force within two years of losing a defense contract or military base. Specific guidelines for a detailed conversion blueprint are provided. Once developed, this blueprint must be reviewed at least once every two years.

The committees are funded out of the defense contract or military base operating expenses. Any contractor refusing to participate loses eligibility for future contracts for three years, among other penalties.

Title IV: Economic Adjustment Assistance for Workers

Displaced workers are eligible for adjustment benefits for up to two years following their displacement. These benefits include:

1. Compensation above unemployment benefits to maintain income at a level of 90% of the first $20,000 and 50% of the next $5000 that the worker had been earning;

2. Pension credit and benefits as if still employed;

3. Maintenance of health, disability or life insurance coverage;

4. Retraining for comparable civilian work, with eligibility for a job search allowance and relocation expenses.

Managerial and technical employees who have spent over half of the previous decade employed in defense-related industry must complete a professional retraining program as a prerequisite to becoming eligible for financial assistance.

Title V: Economic Adjustment Fund

This Title estabishes a fund to cover federal payments provided for in the bill. All defense contractors will be legally obligated to pay into the fund at an annual rate of 1 and 1/4 percent of the value of their gross revenues from the contracts. In addition, the government pays into the fund 10% of projected savings from a cancellation or reduction of a program or contract.

APPENDIX EIGHT

H.R. 813: Defense Economic Adjustment Act

100TH CONGRESS
1ST SESSION

H. R. 813

To facilitate the economic adjustment of communities, industries, and workers to reductions or realignments in defense or aerospace contracts, military facilities, and arms export, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 28, 1987

Mr. WEISS (for himself, Mr. MAVROULES, Mr. DELLUMS, Mr. ST GERMAIN, Mrs. BOXER, Mr. HAYES of Illinois, Mr. NOWAK, Mr. EDWARDS of California, Mr. OBERSTAR, Mr. CROCKETT, Mrs. KENNELLY, Mr. LEHMAN of Florida, Mr. FAUNTROY, Mr. OWENS of New York, Mr. TOWNS, Mr. MOAKLEY, Mr. KOLTER, Mr. CONYERS, Mr. STUDDS, Mr. ACKERMAN, Mr. KILDEE, Mr. STOKES, Mr. DIXON, Mr. LELAND, Mr. BATES, Mr. MATSUI, Mr. MARTINEZ, Mr. MARKEY, and Mr. RANGEL) introduced the following bill; which was referred jointly to the Committees on Armed Services, Banking, Finance and Urban Affairs, Education and Labor, Government Operations, and Ways and Means

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A BILL

To facilitate the economic adjustment of communities, industries, and workers to reductions or realignments in defense or aerospace contracts, military facilities, and arms export, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 *Be it enacted by the Senate and House of Represen*
2 *tives of the United States of America in Congress assembl*
3 SHORT TITLE
4 SECTION 1. This Act may be cited as the "Defer
5 Economic Adjustment Act".
6 DECLARATION OF PURPOSE AND POLICY
7 SEC. 2. (a) The Congress finds and declares that duri
8 the past three decades the United States has made hea
9 economic, scientific, and technical commitments for defens
10 that these commitments led to the development of specia
11 skills and business practices not directly applicable
12 vilian sector of the economy; that as these commitments a
13 modified to take account of changing requirements for natio:
14 al security and domestic needs, careful preparation is nece
15 sary if serious economic dislocations are to be avoided; ar
16 that the economic ability of the Nation and of managemen
17 labor, and capital to adjust to changing national securi
18 needs is consistent with the general welfare of the Unite
19 States.
20 (b) It is the purpose of this Act to provide the mean
21 through which the United States can promote orderly ecc
22 nomic adjustment which will (1) minimize the dislocatior c
23 workers, communities, and industries, (2) assure that suc
24 dislocations do not compound recessionary trends, and (3) en
25 courage conversion of technologies and managerial an

1 worker skills developed in defense production to projects
2 which serve the civilian sector.

3 DEFINITIONS

4 SEC. 3. As used in this Act, the term—

5 (1) "Council" means the Defense Economic Ad-
6 justment Council established under section 101 of this
7 Act.

8 (2) "Defense agency" means the Department of
9 Defense, the (nuclear weapons division) of the Depart-
10 ment of Energy, the National Aeronautics and Space
11 Administration, the Coast Guard, and any other
12 agency of the Government to the extent it conducts
13 military or other defense-related operations.

14 (3) "Defense contract" means any contract en-
15 tered into between a person or nonprofit organization,
16 including subcontractors, component manufacturers,
17 suppliers, service contractors and service suppliers, and
18 a defense agency to furnish defense material or serv-
19 ices to such agency, and any contract entered into be-
20 tween a person or nonprofit organization, including
21 subcontractors, component manufacturers, suppliers,
22 service contractors and service suppliers, and any for-
23 eign country or person acting on behalf of a foreign
24 country to furnish defense material or services to or for

1 such country pursuant to the Arms Export Control
2 Act, or similar Act.

3 (4) "Defense contractor" means any facility en-
4 gaged in the furnishing of defense material pursuant to
5 the terms of the defense contract or subcontract, in-
6 cluding any contract under negotiation.

7 (5) "Defense facility" means any private plant or
8 other establishment (or part thereof) used under a de-
9 fense contract or engaged in the production, repair,
10 modification, storage, or handling of defense material,
11 or any Government-owned or Government-leased facil-
12 ity, including bases, forts, shipyards, and depots.

13 (6) "Defense material" means any item of weap-
14 onry, munitions, equipment, or specialized supplies or
15 services intended for use by a defense agency or for
16 sale to or for the use of a foreign country which has
17 primarily military application.

18 (7) "Defense service" means the research, devel-
19 opment, production, test, inspection, or repair of any
20 defense material for use by a defense agency or pursu-
21 ant to a defense contract.

22 (8) "Displace" or "displacement" means with re-
23 spect to any worker, including all Federal civilian em-
24 ployees of the Defense Department, civilian employees
25 of the National Aeronautics and Space Administration,

and all civilian employees engaged in defense and space-related production, the separation, on a permanent or temporary basis, of such worker from employment with such facility or agency.

(9) "Fund" means the Workers Economic Adjustment Reserve Trust Fund established by title V of this Act.

(10) "Person" means any corporation, firm, partnership, association, individual, or other entity.

(11) "State" means each of the United States, and the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands.

(12) "State agency" means the agency of a State which administers its unemployment compensation law, approved by the Secretary of Labor under section 3304 of the Internal Revenue Code of 1986.

(13) "Substantially and seriously affected" means with respect to any community a community in which a substantial part of the labor force is directly employed by a defense facility or defense contractor in furnishing specialized materials or services under a defense contract as determined by the Director of the Defense Economic Adjustment Council.

TITLE I—DEFENSE ECONOMIC ADJUSTMENT COUNCIL

ESTABLISHMENT

SEC. 101. (a) There is established in the Executive Office of the President the Defense Economic Adjustment Council which shall be composed of—

(1) the Secretary of Commerce;

(2) the Secretary of Labor;

(3) the Secretary of Health and Human Services;

(4) the Secretary of Housing and Urban Development;

(5) the Secretary of Transportation;

(6) the Secretary of Defense;

(7) the Secretary of Energy;

(8) the Director of the Office of Management and Budget;

(9) the Administrator of the General Services Administration;

(10) the Chairman of the Council of Economic Advisers;

(11) six representatives of the business-management community who represent nondefense business to be appointed by the President; and

(12) six representatives of labor union organizations to be appointed by the President.

(b) The Secretaries of Commerce and Labor shall be Cochairmen of the Council, shall preside over meetings of the Council, and shall designate a member of the Council to preside in the absence of the Chairman.

(c)(1) An Office of Economic Adjustment shall be established within the Executive Office of the President to provide necessary staff support for the Council. The Office shall be headed by a Director who shall be appointed by the President and who shall be compensated at the rate provided for grade 18 of the General Schedule under section 5332 of title 5, United States Code.

(2) At the request of the Council, the staff and any task force established by the Council shall carry out such duties as the Council may prescribe.

(3) The Council may appoint and fix the compensation of such personnel as it deems advisable. The Council may procure temporary and intermittent services to the same extent as authorized by section 3109 of title 5, United States Code.

(4) The Council is authorized to secure directly from any executive department, agency, or other instrumentality of the Government, information, suggestions, estimates, and statistics to carry out this Act, and each such entity shall furnish such information, suggestions, estimates, and statistics directly to the Council upon request made by the Chairman.

(5) The members of such staff and any task force established by the Council may include marketing specialists, production engineers, plant layout experts, and urban planning experts.

(d)(1) Members of the Council who are officers or employees of the Government shall receive no additional compensation by virtue of membership on the Council.

(2) Members appointed to the Council who are not officers or employees of the Government shall receive compensation at the rate of not to exceed $135 per diem when engaged in the performance of duties of the Council.

(3) While away from their homes or regular places of business in the performance of services for the Council, all members of the Council shall be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses under section 5703(b) of title 5, United States Code.

DUTIES

SEC. 102. (a) The Council shall—

(1) disseminate information furnished by the Secretary of Defense under subsection (b) to the appropriate Federal, State, and local agencies or authorities and alternative use committees as soon as the proposed or pending change described in such notice is known;

(2) encourage the preparation of concrete plans for non-defense-related public projects addressing vital areas of national concern (such as transportation, housing, education, health care, environmental protection, and renewable energy resources) by the various civilian agencies of the Government, as well as by State and local governments;

(3) solicit, direct, and coordinate concrete plans for non-defense-related public projects addressing vital areas of national interest, taking State and local concerns into account;

(4) develop and coordinate information on priority, federally funded projects, agency programs and funding possibilities, loans, and loan guarantees pertaining to defense economic adjustment;

(5) monitor existing job services information banks in the Department of Labor and in State agencies to serve as a resource on civilian job information for workers displaced from defense-related employment as a result of shifting or reduced defense-related expenditure;

(6) determine criteria for eligibility for assistance and rule on eligibility appeals pursuant to this Act;

(7) prepare and distribute a Conversion Guidelines Handbook pursuant to section 103 of this Act;

(8) make full use of the provisions of section 15(d) of the Small Business Act; and

(9) perform such other duties as are imposed upon the Council by this Act.

(b)(1) The Secretary of Defense shall notify the Council one year in advance of a pending or proposed change in defense spending (or as soon as possible prior to such proposed change) that would affect employment in the defense industry, including reduction, technical changes, or elimination of a program by Congress, the Secretary of Defense, the Office of Management and Budget, or the President; the termination or slowdown of a research and development or procurement contract; and the proposal to close a military base.

(2) The Secretary of Defense shall furnish the Council with projected future defense spending levels and contract progress reports.

CONVERSION GUIDELINES HANDBOOK

SEC. 103. (a) The Council shall prepare and distribute a Conversion Guidelines Handbook which shall—

(1) include an explanation of the basic issues involved in the retraining, reorientation, and reorganization of personnel (managerial, technical, administrative, and production), trade union rights and collective bargaining contracts, and the redirection of physical plants for efficient, non-defense-related productive activity;

(2) outline the basic requirements of programs for professional retraining of managerial personnel in order to reorient them to the management of non-defense-related enterprise;

(3) outline the basic requirements for a program of professional retraining of technical personnel in order to effectively reorient them to the prevailing conditions of research, product design, and production operations within non-defense-related facilities;

(4) outline the basic requirements for the length and nature of occupational retraining for production workers and junior level administrative employees;

(5) include illustrative case studies of successful conversion to efficient non-defense-related production, or references thereto;

(6) prepare directories, by geographic region and area of specialization, of organizations and individual consultants in fields such as marketing, facilities design, organization, production engineering, and engineering economy whose major professional experience has been in non-defense-related activity, and furnish such lists to local alternative use committees upon their request;

(7) provide a checklist of critical points requiring attention at each stage of the conversion process;

(8) contain an annotated bibliography of conversion related works; and

(9) be revised, as necessary, every two years.

RULES

SEC. 104. (a) The Defense Economic Adjustment Council shall promulgate such regulations as may be necessary to carry out the provisions of this Act.

TITLE II—COMMUNITY ECONOMIC ADJUSTMENT PLANNING

ELIGIBILITY

SEC. 201. (a) Each community which is substantially and seriously affected by reduction or elimination of Government defense facilities or curtailment or conclusion of defense contracts shall be eligible for Federal assistance for planning for economic adjustment to avoid substantial dislocations and for economic adjustment assistance should such dislocation occur. The Council shall make available to alternative use committees on a regular basis information on economic development programs of any Federal department, agency, or other instrumentality which provide funds which may be used for such planning. The Council shall report at least annually to the Congress on any such economic development program which make an inadequate portion of its funds available for such planning.

(b) The Council shall develop criteria for eligibility for planning assistance. To the fullest extent practicable, the Council shall utilize data and reports available from other departments, agencies, or instrumentalities of the Government for statistical and other information required to develop the criteria. The criteria shall insure that assistance is directed to those communities which are most vulnerable economically to reductions in defense expenditures.

(c) The Council shall publish semiannually listings of communities currently eligible, or which the Council determines (on the basis of information provided under section 102(b)(1)) is likely to be eligible, for such assistance. Communities not included may petition the Council for inclusion on the list. The Council shall make such determination within one month of receipt of the petition.

EXCESS PROPERTY PROVISION

SEC. 202. (a) Any capital property or facilities declared excess by a defense agency in conjunction with a Government-owned facility reduction or closure shall be appraised for purposes of resale to the affected community. The defense agency shall take into account the cost of modernization and of improving abandoned facilities up to minimum safety and environmental standards in determining a fair price for the facility.

(b) In fixing the sale or lease value of any property to be disposed of under subsection (a), the defense agency shall take into consideration any benefit which has accrued or may accrue to the United States from the use of such property by the community involved. Whenever there is a dispute as to the sale or lease value, the defense agency shall submit such a dispute to the Defense Economic Adjustment Council for resolution.

TITLE III—ALTERNATIVE USE COMMITTEES

ESTABLISHMENT

SEC. 301. (a) There shall be established at every defense facility employing at least one hundred persons an alternative use committee, composed of not less than eight members, with equal representation of the facility's management and labor (including representatives of union bargaining units and democratically elected representatives of unorganized workers). The committee shall undertake economic conversion planning and preparation for the employment of the personnel and utilization of the facilities in the event of a reduction or elimination of any defense facility or the curtailment, conclusion, or disapproval of any defense contract.

(b) In the case of a defense facility that is a Government military installation, an alternative use committee shall be established composed of not less than eight members, with equal representation of the base management (as designated

1 by the base commander) and the civilian employees of the
2 installation (including representatives of union bargaining
3 units and democratically elected representatives of unorga-
4 nized civilians).

5 (c) In the case of a defense facility that is not a govern-
6 mental military installation, and of any defense contractor
7 subject to subsection (a), the alternative use committee shall
8 be established in accordance with the provisions of this sec-
9 tion notwithstanding the lack of any specific requirement for
10 such a committee in the defense contracts of such facility.

11 (d) The chief executive officer of any unit of general
12 local government within which the defense facility is located
13 may appoint nonvoting representatives of the local communi-
14 ty, not including any individuals employed at the facility, to
15 participate in activities of the alternative use committees in
16 an advisory capacity. The number of such representatives
17 shall not exceed a number equal to one-half the total number
18 of voting representatives on the committee.

19 (e) The representatives of the unorganized civilian
20 workers on any alternative use committee shall not be dis-
21 criminated against in any manner for their participation in
22 the committee.

23 (f) Funds for performing the planning and reporting re-
24 quirements imposed by this title, including market research,
25 independent studies, and the employment of specialized per-

1 sonnel, shall be paid from funds derived from the defense con-
2 tract or military base operating expenses. Office space shall
3 be provided to the alternative use committee by the manage-
4 ment of the facility without charge.

5 FUNCTIONS OF THE ALTERNATIVE USE COMMITTEES

6 SEC. 302. (a) The alternative use committees shall—

7 (1) evaluate the assets of the defense facility and
8 the resources and requirements of the local community
9 in terms of physical property, manpower skills and ex-
10 pertise, accessibility, environment, and economic needs;

11 (2) develop and review at least once every two
12 years detailed plans for the conversion of the facility to
13 efficient, non-defense-related productive activity to be
14 carried out in the event the facility is affected by a
15 Government decision to reduce, modify, or close the fa-
16 cility, terminate any defense contracts, or disapprove a
17 license to sell or export defense materials to non-
18 governmental parties;

19 (3) provide occupational retraining and reemploy-
20 ment counseling services, or ensure that such retrain-
21 ing and services are provided by other Federal, State,
22 or local agencies, for all employees to be displaced by
23 the implementation of a conversion plan or closing of
24 the facility as soon as the date of commencement of
25 the implementation of that plan or the permanent clos-

ing of that facility is known as provided for in section 102(a)(1);

(4) dissolve itself and return all assets to the control of the management of the facility immediately upon final completion of the conversion.

ADMINISTRATIVE PROVISIONS

SEC. 303. (a) The alternative use committees may hire staff personnel as well as any specialists it may determine necessary.

(b) The alternative use committees are authorized to obtain a complete and detailed inventory of all land, building, capital equipment, and other equipment, including its condition, and are authorized to obtain information of a general nature regarding the occupations and skills of civilian employees, and information concerning existing collective-bargaining contracts. Any defense agency or contractor and any department, agency, or other instrumentality of the Government shall provide any such inventory or information upon request from an alternative use committee.

CONVERSION PLANS

Sec. 304. (a) The conversion plans shall—

(1) be so designed as to maximize the extent to which the personnel required for the efficient operation of the converted facility can be drawn from personnel with the types and levels of skill approximating skill

levels and types possessed by civilian personnel employed at the defense facility prior to its conversion;

(2) specify the numbers of civilian personnel, by type and level of skill, employed at the facility prior to conversion, whose continued employment is not consistent with the efficient operation of the non-defense-related converted facility;

(3) specify the numbers of positions, by level and type of skill, if any, that will be needed at the converted facility because personnel employed at the preconverted facility do not possess the levels or types of skills required;

(4) indicate in detail what new plant and equipment and modifications to existing plant and equipment are required for the converted facility;

(5) include an estimate of financing requirements and a financial plan for the conversion; and

(6) provide for completion of the entire conversion process within a period not to exceed two years.

(b) No plan shall be approved by an alternative use committee unless the plan provides for extension of wage, labor contract provisions, and other benefits to workers at a defense facility until conversion to non-defense-related operations is completed.

PENALTIES

SEC. 305. Each contractor which fails to submit an alternative use plan or refuses or fails to carry out the provisions of a plan approved by the Council shall lose eligibility for future defense contracts for a period of three years, lose contract termination payments, and lose eligibility for tax credits.

TITLE IV—ECONOMIC ADJUSTMENT ASSISTANCE FOR WORKERS

CERTIFICATION

SEC. 401. (a) All displacements affecting workers employed by a defense contractor attributable, in whole or in part, to a reduction of the volume of defense work in such facility shall, upon certification by the local alternative use committees, be reported by the management of the firm or Government facility to the Defense Economic Adjustment Council and the State employment office acting as agent for the administration of the employees benefit program under this title.

(b) Any worker who loses employment with a defense contractor within the six months preceding a reduction of the volume of defense work of such contractor shall, for purposes of subsection (a), be deemed to be a displacement attributable to that reduction.

(c) Any worker employed by a defense facility not required to have alternative use committees as provided in section 301(a) shall be eligible for benefits in accordance with regulations prescribed by the Council.

ENTITLEMENT TO BENEFITS

SEC. 402. (a) Any worker certified pursuant to section 401 of this Act as eligible for adjustment benefits by reason of such worker's displacement from a defense contractor shall be entitled, for the two-year period following displacement, to whichever of the following benefits are applicable:

(1) Compensation, on a weekly basis, sufficient, when added to any benefits which such worker receives or is entitled to receive for such weekly period under any Federal or State unemployment compensation program (or any plan of such worker's employer providing for such benefits) by reason of such worker displacement, and any earnings during such weekly period from other employment, to maintain an income at a level equal to 90 per centum of the first $20,000 per year and 50 per centum of the next $5,000 in excess of $20,000 for that year, of that worker's regular annual wages (based on a forty-hour workweek, or, in the event a defense contractor has a regular workweek payable at straight-time wage rates other than

1 forty hours, for such regular workweek) prior to that
2 worker's displacement.
3 (2) Vested pension credit under any applicable
4 pension plan maintained by the defense contractor from
5 which such worker was displaced, for the period of that
6 worker's employment with such facility, and the two-
7 year period following that worker's displacement,
8 during which two-year period, for the purpose of the
9 Employee Retirement Income Security Act of 1974
10 and the corresponding provisions of the Internal Reve-
11 nue Code of 1986 (relating to a qualified plan) such
12 worker shall be treated as if such worker were em-
13 ployed by such contractor on the same basis as such
14 worker was employed on the day preceding such work-
15 er's displacement; except that pension credit during
16 such two-year period shall be reduced to the extent of
17 vested pension credit earned with another employer
18 during such two-year period.
19 (3) Maintenance of any hospital, surgical, medical,
20 disability, life (and other survivor) insurance coverage
21 which such individual (including members of such indi-
22 vidual's family) had by reason of employment by a de-
23 fense contractor prior to such displacement; except that
24 if such worker so displaced is otherwise employed
25 during such two-year period, such worker shall be enti-

1 tled to receive benefits under this paragraph to the
2 extent necessary to provide such worker with the same
3 protection described in this paragraph as such worker
4 (including family members) would have had if such
5 worker had not been displaced.
6 (4)(A) Retraining for civilian work providing pay
7 and status comparable to the employment from which
8 such worker was displaced which is approved by the
9 Secretary of Labor or, in the case of a worker in a
10 State which has entered into a contract with the Coun-
11 cil pursuant to section 403 of this Act, by the State
12 agency.
13 (B) Workers shall be eligible for a job search al-
14 lowance under the same terms, conditions, and
15 amounts as provided in section 237 of the Trade Act of
16 1974 (19 U.S.C. 2297).
17 (5) Reimbursement for reasonable relocation ex-
18 penses as specified in regulations prescribed by the
19 Secretary of Labor incurred by such worker in moving
20 to another location in order to take advantage of a
21 non-defense-related employment opportunity to which
22 such worker is referred, or which is determined to be
23 suitable, by the Secretary of Labor or, in the case of a
24 State which has entered into a contract with the Coun-

1 cil pursuant to section 403 of this Act, by the State
2 agency.
3 (b) All managerial and technical employees who have
4 spent more than 50 per centum of the ten years preceding
5 implementation of the conversion plan working in defense-
6 related industry or at military bases must participate in or
7 have completed a program of professional retraining meeting
8 the requirements specified in the Conversion Guidelines
9 Handbook of the Defense Economic Adjustment Council in
10 order to be eligible for the special financial assistance, reloca-
11 tion aid, and special job information services provided by this
12 Act. All other employees may elect to enter such a program.
13 STATE AGREEMENTS
14 SEC. 403. (a) The Council shall, on behalf of the United
15 States, enter into an agreement with a State, or with any
16 agency administering the unemployment compensation law of
17 any State approved by the Secretary of Labor under section
18 3304 of the Internal Revenue Code of 1986, which—
19 (1) as agent of the Council, shall upon certifica-
20 tion and other determinations required in section 401
21 of this Act, make such payments and provide such ben-
22 efits as are authorized by section 402 of this Act, on
23 the basis provided for in this Act, and shall otherwise
24 cooperate with the Council and other State agencies in
25 carrying out the provisions of this Act; and

1 (2) shall be reimbursed for all benefits paid pursu-
2 ant to such agreement and all administrative and oper-
3 ational costs incurred in carrying out such agreement.
4 (b)(1) There shall be paid to each State agency which
5 has an agreement under this section, either in advance or by
6 way of reimbursement, as may be determined by the Council,
7 such sum as the Council estimates the agency will be entitled
8 to receive under such agreement for each calendar month,
9 reduced or increased, as the case may be, by any sum by
10 which the Council finds that its estimates for any prior calen-
11 dar month were greater or less than amounts which should
12 have been paid to the agency. Such estimates may be made
13 upon the basis of statistical sampling, or other method as
14 agreed upon by the Council and the State agency.
15 (2) The Council shall from time to time certify to the
16 Secretary of the Treasury for payment to each State agency
17 which has an agreement under this section sums payable to
18 such agency under paragraph (1) of this subsection. The Sec-
19 retary of the Treasury, prior to audit or settlement by the
20 General Accounting Office, shall make payments to the
21 agency, in accordance with such certification, from the fund.
22 (3) All money paid a State agency under any such
23 agreement shall be used solely for the purposes for which it is
24 paid; and any money so paid which is not used for such pur-

1 poses shall be returned, at the time specified in such agree-
2 ment, to the Treasury.

3 (c) In any case involving a worker entitled to benefits
4 under section 402 who is in a State with respect to which
5 there is no agreement pursuant to this section, the Secretary
6 of Labor shall, under regulations prescribed by the Secretary,
7 administer such benefits on behalf of such worker. The Secre-
8 tary of Labor, in administering such benefits, shall, from time
9 to time, certify to the Secretary of the Treasury for payment
10 to such worker the amounts of such benefits to which such
11 worker and the Secretary of the Treasury shall make pay-
12 ments to such worker, in accordance with such certification,
13 from the fund.

14 LIMITATION ON BENEFITS

15 SEC. 404. In no case shall any displaced worker be eli-
16 gible for benefits under section 402(a) of this Act unless such
17 worker agrees (1) to maintain, on a current basis, during the
18 period of his displacement, an active registration with the
19 Secretary of Labor or an appropriate State employment
20 agency, as the case may be, and (2) to accept any employ-
21 ment determined by the Secretary of Labor or agency, as the
22 case may be, to be of the same skill or work of a similar
23 nature, at the same pay as such worker was receiving before
24 such worker was displaced. No such benefits shall be paid

1 under this Act to any worker who fails to maintain such reg-
2 istration or to accept such employment.

3 TREATMENT OF UNEMPLOYMENT COMPENSATION

4 SEC. 405. In no case shall any adjustment benefits paid
5 pursuant to this Act be taken into consideration in determin-
6 ing eligibility for, or the amount of, unemployment compensa-
7 tion under any Federal or State unemployment compensation
8 law.

9 TERMINATION OF BENEFITS

10 SEC. 406. Adjustment benefits shall terminate when a
11 worker eligible for benefits obtains employment providing 90
12 per centum of the first $20,000 per year and 50 per centum
13 of the next $5,000 in excess of $20,000 for that year of t'
14 worker's previous wages, or two years after displacemen.,
15 whichever occurs sooner.

16 TITLE V—ECONOMIC ADJUSTMENT FUND

17 FUND ESTABLISHED

18 SEC. 501. There is hereby established in the Treasury
19 of the United States a trust fund to be known as the Workers
20 Economic Adjustment Reserve Trust Fund.

21 DEPOSITS INTO THE FUND

22 SEC. 502. (a)(1) The Federal Government shall not
23 enter into any contract with any person to furnish defense
24 material or services to a defense agency, nor shall it permit
25 the sale of such defense material or services to or on behalf of

any country, unless the contract requires the contractor to pay into the fund an amount equal to 1¼ per centum per year of the value of the contractor's gross revenue on such sales.

(2) Payments pursuant to this section shall be computed in such manner, and paid at such time, as the Council, after consultation with the Comptroller General, shall by regulation prescribe.

(3) In no case shall payments required pursuant to this section be considered as a cost item in the negotiating or bidding of any defense contract, or in determining profit for purposes of this section or any provisions of law relating to the renegotiation of defense contracts.

(4) Amounts paid by a defense contractor pursuant to this section shall be deposited in the fund.

(b) The Secretary of the Treasury shall determine the projected savings in defense spending as a result of cancellation or cutback of a program or contract and shall deposit 10 per centum of the projected savings in the fund.

(c) Contract termination payments withheld pursuant to section 305 shall be deposited in the fund.

(d) There is authorized to be appropriated to the fund such amounts as may be necessary to enable the Secretary of the Treasury to make the payments and other disbursements authorized by this Act.

MANAGEMENT OF THE FUND

SEC. 503. (a) It shall be the duty of the Secretary of the Treasury to invest such portion of the moneys in the fund as is not, in the judgment of the Secretary, required to meet current withdrawal requirement. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose, such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under chapter 31 of title 31, United States Code, are hereby extended to authorize the issuance at par of special obligations exclusively to the fund. Such special obligations shall bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming part of the public debt; except that where such average rate is not a multiple of one-eighth of 1 per centum, the rate of interest of such special obligations shall be the multiple of one-eighth of 1 per centum next lower than such average rate. Such obligations shall be issued only if the Secretary of the Treasury determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed

as to both principal and interest by the United States on original issue or at the market price, is not in the public interest.

(b) Any obligations acquired by the fund (except special obligations issued exclusively to the fund) may be sold by the Secretary of the Treasury at the market price, and such special obligations may be reduced at par plus accrued interest.

TITLE VI—USE OF CERTAIN RESEARCH FUNDS

AMENDMENT TO PUBLIC LAW 91-441

SEC. 601. (a) Section 203 of Public Law 91-441 is amended by—

(1) inserting "or, in the opinion of the Defense Economic Adjustment Council, a potential relationship to an urgent national requirement in a designated nondefense sector," in subsection (a) after "function or operation";

(2) inserting "or the Defense Economic Adjustment Council" after "Department of Defense" in paragraph (1) of subsection (a); and

(3) adding at the end of such section the following:

"(g) The Defense Economic Adjustment Council shall be required to define urgent national requirements for nondefense sectors of the economy, and shall be required to include in the designation, any areas so defined by the Congress.

Research and development related to energy and fuel efficiency shall be considered a designated area.".

(b) Section 204 of such Act is amended by inserting "or, in the opinion of the Defense Economic Adjustment Council, a potential relationship to an urgent national requirement in a designated nondefense sector of the economy" after "military function or operation".

TITLE VII—AUTHORIZATION OF APPROPRIATIONS

APPROPRIATIONS AUTHORIZED

SEC. 701. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

O

PROGRAM STATEMENT:

NATIONAL COMMISSION FOR ECONOMIC CONVERSION AND DISARMAMENT

The National Commission for Economic Conversion and Disarmament (ECD) was established to educate the public about why the orderly transfer of military resources to civilian uses through conversion is necessary for reversing the arms race and restoring the nation's economic health. The Commission serves as a national clearinghouse for information and technical expertise on conversion and disarmament planning for the media, local government, elected officials, peace and labor groups, and the public at large.

The Commission promotes greater awareness about the links between disarmament, economic planning, and the military economy through citizen forums, published materials and by planning in industry, universities and other non-governmental organizations. The Commission works to foster broader understanding of political and economic alternatives to the arms race through a speakers' bureau which includes the nation's leading conversion and disarmament experts.

The National Commission, comprised of former and current members of Congress, local elected officials, leaders of trade unions and professional associations, as well as scholars of military economy and disarmament, helps educate the public about conversion and disarmament.

ECD publishes a newsletter, briefing papers and longer monographs on conversion and disarmament. A planning guide on infrastructure costs and needs examines how local governments can develop an agenda and budgets for civilian alternatives to military spending.

***

NATIONAL COMMISSION FOR ECONOMIC CONVERSION AND DISARMAMENT

Briefing papers available include the following:

Briefing Paper One: *An Introduction to Economic Conversion*,
Jonathan Feldman, May 1988.

Briefing Paper Two: *An Introduction to Disarmament*,
Robert Krinsky, May 1988.

Briefing Paper Three: *Economic Conversion: Indispensable for America's Economic Recovery*,
John Ullmann, April 1989.

Briefing Paper Four: *Criteria for Economic Conversion Legislation*,
Jonathan Feldman, Robert Krinsky and Seymour Melman, December 1988.

Briefing Paper Seven: *Is Depression the Price of Peace?*
David Alexander, April 1989.

Briefing Papers are available at $5.00 per copy.

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(202) 544-5059

Box 15025
Washington, D.C. 20003

September 17, 1992

Mr. David Berteau, Charman
Department of Defense
Defense Conversion Commission
1825 K Street NW, Suite 310
Washington DC, 20006

Please find enclosed a copy of my Written Statement for the Record of the Defense Conversion Commission (including two enclosures).

I hope that the Commissions staff will be able to review this material in more detail, and that the material will be of some use and value to the Commission and it's staff. If I can be of any further assistance to the Commission in any way, please feel free to contact me by phone or in writing as indicated below.

I wish the Commission the best as you try to deal with an extremely complex issue and difficult challenge. I would very much appreciate it if the Commission would forward me a copy of the Record of the Testimony Provided at the September 17, 1992 Public Hearing held in Groton, Connecticut and a copy of the Final Report of the Commission, as well as any other relevant material that the Commission will be making public.

Thank you for your time, attention, and assistance.

Clifford K. Neal

Clifford K. Neal
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Mystic, Connecticut
06355

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Phone (203) 536-3661 (Nights)
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9/23/92

WRITTEN TESTIMONY OF

CLIFFORD K. NEAL

TO THE

DEPARTMENT OF DEFENSE DEFENSE CONVERSION COMMISSION

SEPTEMBER 17, 1992

Written Testimony of Clifford K. Neal

To the Department of Defense
Defense Conversion Committee, September 17, 1992

I would like to thank the Defense Conversion Committee for the opportunity to provide a written statement. My name is Clifford K. Neal. I was born in Washington DC and have resided in Falls Church and Alexandria VA (coincidently, the current office of the DOD Office of Economic Adjustment in Crystal City now occupies the site of the apartment where I lived as a child), Norfolk VA (home of NNSD - Newport News Shipbuilding), Detroit MI, and Lynchburg VA (home of B&W - Babcock and Wilcox). Since 1960 I have resided in Mystic in Southeastern Connecticut.

I attended Cornell University from 1965 to 1970 and received a Masters Degree with a major in Industrial Engineering and Operations Research and a minor in City and Regional Planning. I was drafted in 1970 and served in the US Army during the Vietnam Era from 1970 to 1972 in Germany, receiving an honorable discharge in 1972. From 1972 to 1978 I was employed at EB (Electric Boat) as a Chief of Industrial Engineering, serving in an internal consulting group. From 1978 to 1991 I was employed at UNC Naval Products as the Manager of Management Systems, Inventory and Production Control, and Planning.

In April of 1990 it was announced that the UNC Naval Products plant would be shutdown because of defense cuts. Our organization prepared the shutdown plan for the plant dealing with the completion of all work (including the shipment of in process work to B&W), the disposition of all material, equipment, and tooling, the close out of all contracts, and the decommissioning of the facility and grounds. Pursuant to the successful shutdown of the plant, I was laid off in January of 1992.

During this period, UNC received a grant from the State of Connecticut to prepare a strategic plan for diversification. This plan was prepared with the assistance of Arthur D. Little, Inc. and resulted in the formation of UNC Manufacturing (MTI or Man-Tech). I was closely involved with these efforts. In November of 1990 the SECEDC (Southeastern Connecticut Economic Development Coalition) was formed to take actions to address the projected economic impact of defense cuts on the region. A grant was received through the State from the DOD Office of Economic Adjustment to prepare a regional strategic plan (again with the assitance of ArthurD. Little, Inc.). The strategic plan was completed in Febrauary 1992 and the CRED (Corporation for Regional Economic Development) formed to implement the plan. I participated actively in all of these efforts as a volunteer while receiving unemployment, and was especially active in the Manufacturing and R&D Action Group.

Out of the SECEDC Manaufacturing & R&D Action Group TECHCONN (Technology for Connecticut, Inc.) was formed. TECHCONN is a private non-profit corpotrtaion whose mission is to participate in the formation of a new industrial base, and the jobs for displaced defense workers, through emerging energy, environmental, transportation, and marine technologies. I am now President and General Manager of TECHCONN. The views in this statement represent my own views as a private citizen, and do not represent the necessarily represent the positions of any of the organizations I have mentioned above.

As part of these efforts with representatives of the region, state, and our congressional delegation I prepared a proposal (Enclosure 1; 1990-2000, Connecticut's DECADE) which contained specific recommendations for the region, state, and nation.

In summary this proposal recommends:

1) Forming a private public coalition to lead defense diversification efforts,
2) Preparing a strategic plan based on the analysis of relevant data,
3) Developing a new defense strategy that re-orients our defense industrial base to our new needs, including:
   - Shifting the defense burden to Europe and the Pacific Rim,
   - Reducing strategic nuclear arms,
   - Analyzing the Navy's role in a changing defense environment,
   - Reorienting our national defense to respond to third world threats and nuclear proliferation, and
   - Increasing efficiency in the DOD and planning reductions in the budget.
4) Improving the state's business climate to retain and attract businesses,
5) Providing relief and assistance for defense contractors, including:
   - Providing diversification planning, commercial marketing, and financing assistance.
6) Developing non-defense federal opportunities through procurement assistance, new technology development, technology transfer, and the integration of "dual use" commercial and military technologies,
7) Promoting exports,
8) Promoting the development of new businesses through education, research, capital formation, incubation services, and technology centers and industrial sites that are focused on key, critical, emerging technologies including:
   - Health, human, and financial services,
   - Information and communication,
   - Factory automation,
   - Energy,
   - Environmental technologies,
   - Ocean and marine technologies,
   - Space and aerospace, and
   - Other new technologies such as superconducting technologies, bio-technology, nano-technology, photonics and new materials.
9) Providing assistance for workers including:
   - Proper notification,
   - Protection and extension of benefits such as severance, medical insurance, unemployment, retirement and pensions, IRA withdrawals, housing assistance, etc.,
   - Retraining, especially rapid and early response programs,
   - Job placement services, and
   - Protection of economic support such as food stamps, AFDC, child nutrition, Medicaid, etc.
10) Providing improved community assistance programs.

Enclosure (1) provides detail on the specific recommendations in each of these areas.

I have attached a Figure (THE KEY PARTNERSHIPS) which shows the ways in which national, state, and local government, the defense community, the international community, industry, labor, the media and the academic community can work together to achieve these goals.

During this period I also bid on preparing the strategic plan for Southeastern Connecticut. I am sure that many of the region's leaders have briefed you on the strategic plan developed by the SECEDC and Arthur D. Little, Inc that is now being implemented by the Corporation for Regional Economic Development. I have attached (Enclosure 2) my own proposal which may provide some additional insights for the Commission. This proposal contains specific quantitative economic analyses and forecasts which have been used to address key issues and develop a specific action plan.

One of the most striking results of the analysis was the amount of capital that would be required to generate replacement jobs for those lost through defense cuts. Given the economic conditions of the region and the tight credit in New England, this area is particularly important if any real results are to be expected. In addition to the capital required for job creation, substantial expenses would be incurred to provide aid and retraining for displaced workers and their families.

I hope that the Commissions staff will be able to review this material in more detail, and that the material will be of some use and value to the Commission and it's staff. If I can be of any further assistance to the Commission in any way, please feel free to contact me by phone or in writing as indicated below.

I wish the Commission the best as you try to deal with an extremely complex issue and difficult challenge. I would very much appreciate it if the Commission would forward me a copy of the Record of the Testimony Provided at the September 17, 1992 Public Hearing held in Groton, Connecticut and a copy of the Final Report of the Commission, as well as any other relevant material that the Commission will be making public.

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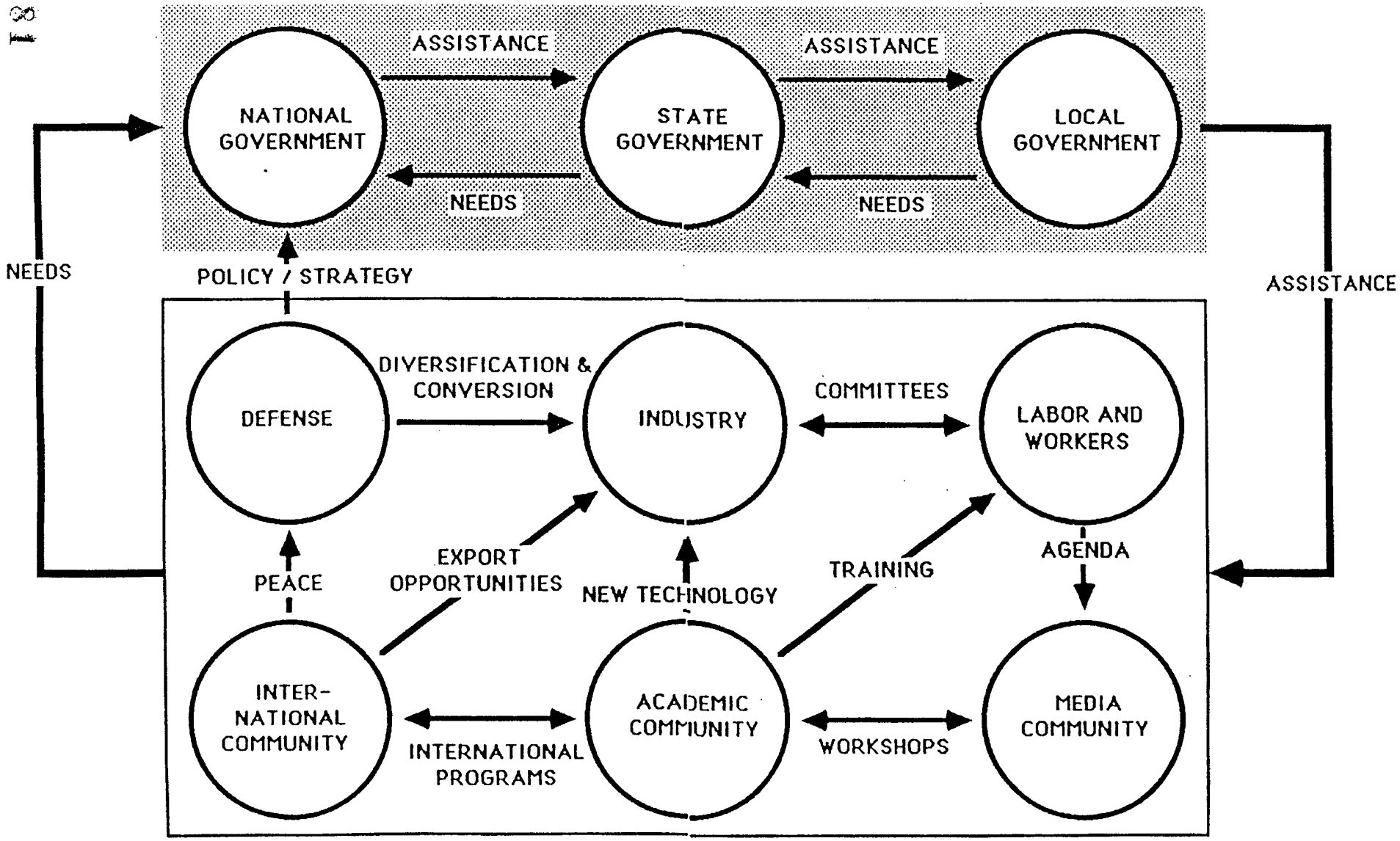
Phone (203) 536-3661 (Nights)
FAX (203) 445-3498

1990-2000, CONNECTICUT'S DECADE

FIGURE 3

THE KEY PARTNERSHIPS



CITY OF PHILADELPHIA

STEVEN P. KURTZ
CITY REPRESENTATIVE AND
DIRECTOR OF COMMERCE

September 25, 1992

Sally Hartwig, Executive Director
Department of Defense
Defense Conversion Commission
1825 K Street, NW
Suite 310
Washington, D. C. 20006

Dear Ms. Hartwig:

Thank you for the invitation to testify in Groton, Conn. on September 17, 1992, at the public hearings conducted by the Defense Conversion Commission on the effects on the economy of reduced defense spending. Further, we appreciate the opportunity to submit written testimony to the Commission, as we were not able to attend the hearing.

Enclosed is our testimony "The Economic Impact of Closure at the Philadelphia Naval Base Complex." The closure of most of the Naval Base, including the Philadelphia Naval Shipyard, will have a devastating impact on both the City of Philadelphia and on the region.

Thank you for providing this forum for us to present the City's serious concerns over the proposed Philadelphia base closures.

Sincerely,

STEVEN P. KURTZ

mcl
10/5/92

1660 MUNICIPAL SERVICES BUILDING, PHILADELPHIA, PA. 19102-1684

THE ECONOMIC IMPACT OF CLOSURE AT THE PHILADELPHIA NAVAL BASE COMPLEX TESTIMONY OF THE CITY OF PHILADELPHIA BEFORE THE DEFENSE CONVERSION COMMISSION SEPTEMBER 16, 1992

Introduction:

On June 30, 1991, the Defense Closure and Realignment Commission recommended the closure of most of the Philadelphia Naval Base Complex, including the Philadelphia Naval Shipyard.1/ The Complex provides jobs to nearly 13,000 civilians and 6,000 military personnel. Approximately 11,000 of the 13,000 civilian jobs will be lost under the proposed closure. The loss of the military personnel will also have a severe impact on the region.

These workers come from the tri-state area of Southeastern Pennsylvania, southern New Jersey and Delaware. Many of these workers are in relatively high-paying, skilled, blue collar positions which are a diminishing part of the region's, and the nation's, economy. The unemployment rate in Philadelphia is 9.1%, and there are not many jobs available for these dislocated and highly skilled workers.

Philadelphia's Position:

In July 1991, members of the regional Congressional delegation, the States of Pennsylvania, New Jersey and Delaware, the City of Philadelphia, and three trade unions filed suit alleging that the Base Closure and Realignment Commission (Commission) violated the 1990 Base Closure and Realignment Act. The suit seeks to overturn the Commission's decision to close the PNSY.2/

The City strongly supports the suit and all efforts to keep the Base open. Closure of the PNSY will have a devastating impact on the region, already hurt by the continuing recession.

The Philadelphia Naval Shipyard:

The Philadelphia Naval Shipyard (PSNY), Philadelphia's largest single industrial employer, provides approximately 7,400 of the 11,000 jobs to be lost.

---

1 The Naval Base is comprised of five major commands: the Hospital; the Shipyard; the Naval Station; the Naval Ships Systems Engineering Station (NAVSESS); and the Admiral's staff. About 70 smaller tenant commands are also located at the Base. Only NAVSESS, which employs about 2,000 people, and a propeller facility in the Shipyard employing 180, will remain. Also remaining will be an inactive ships maintenance unit and the brig, which offer no significant employment.

2 Senator Arlen Specter v. H. Lawrence Garrett, III, Secretary of the Navy, No. 91-1932 (3d Cir. January 23, 1992) (1992 U.S. App.LEXIS 6969).

The PNSY is one of the most cost-effective shipyards in the public sector. The workers represent a wide variety of trade skills (40% in blue collar skilled trades, 15% in science and engineering, and 45% in administrative or technical jobs). These workers have the Navy's best man-day rate, its highest productive ratio, and have enabled the PNSY to be the only naval shipyard to make a profit in each of the past three years.3/

The Shipyard covers 350 acres - comprised of 25,000 feet of berthing space, 34 fixed floating and track cranes, facilities housing 23 fully equipped production shops and 5 dry docks.

PNSY has two of the Navy's three East Coast drydocks large enough to handle aircraft carriers. In addition, three of the Shipyard's drydocks are also capable of fitting amphibious assault ships, cruisers and destroyers. Closing the PNSY would leave the Navy with only two drydocks this size on the East Coast.

Since 1980 the PNSY has specialized in the aircraft carrier Service Life Extension Program (SLEP), a keel-up rebuilding of conventionally powered aircraft carriers. On September 14, 1992, the USS Forrestal arrived at the PNSY for a 14 month overhaul. In 1993 the aircraft carrier USS Kennedy will arrive at the PNSY for a two year overhaul.

<u>The Navy Is Trying to Shut Down the PNSY Well in Advance of Closure:</u>

Both the USS Forrestal and USS Kennedy overhauls were obtained by the region's Congressional delegation after a lengthy dispute with the Defense Department.4/ In July 1991 the Navy tried to remove work from the PNSY by asking the Senate Armed Services Committee to scrap the appropriation for the Kennedy overhaul. If the Navy had prevailed in diverting the Kennedy from the Shipyard, the PNSY would have closed in October 1991.

We believe that the Navy is making it virtually impossible for the PNSY to get any new work and, to further that policy, will begin a 1300 - 1800 person reduction in force at PNSY in early 1993.

We are concerned that the Navy is not assigning the PNSY sufficient work so that the PNSY's workforce will be too depleted to adequately accomplish the USS Kennedy and Forrestal overhauls on time and to specification. The PNSY workforce must be up to full strength for them to sufficiently service these two important assets of the U.S. Naval fleet. The only way to insure the PNSY workforce will be capable of carrying out these major overhauls is for the Navy to assign other ship repair and maintenance work to the Shipyard.

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3 "The Philadelphia Naval Shipyard: Center of Excellence for Ship Building, Repair, Modernization and Training," March 1992.

4 Ibid.

Further, even if the PNSY is ultimately closed, it cannot effectively transition from its primary use to new reuses overnight, or even within a one or two year period. Therefore, on-going assignment of Navy ship repair and overhaul work is essential to provide the PNSY with sufficient time to formulate and implement a successful transition plan for the productive future use of the Shipyard, and one that provides as many jobs as possible.

The Economic Impacts of Closure: 5/

Altogether, about 33,000 direct and indirect jobs will be lost: 11,000 civilian workers at the Naval Base Complex; 2,000 employed because of goods and services purchased in the course of Base operations; 14,000 employed because of general spending in the region by those tied directly to the Base; and 6,000 military personnel.

Most of these jobs will be in Philadelphia, with about 5,000 jobs lost in New Jersey and 3,000 more in Delaware County, Pennsylvania. Base closure will result in a 25% increase in the local rate of unemployment, and would cost the region's state governments -- primarily Pennsylvania -- an additional $53 to $69 million in unemployment benefits.

Approximately 1.4% of the region's economy, over 30,000 jobs, and $110.7 million in local and state tax revenues are at stake in the proposed closure.

1. The City:

Philadelphia's unemployment rate is currently 9.1%. Closure could cause the unemployment rate to rise to almost 12%, a 30.4% increase in unemployment.

Philadelphia will lose a total of $43.2 million in annual tax revenues. These include:

$26 million in wage tax revenues;

$11.2 million in real estate revenues; and

$6 million in business tax revenues.

Closure of the Base will reduce income in Philadelphia by about $541 million, or 2.5% of the City's total.

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5 The statistical information used in this section comes from "Economic Impact of the Philadelphia Naval Base and Shipyard on the Philadelphia Metropolitan Area," by the Pennsylvania Economy League (Eastern Division) and the WEFA Group, October 1990. The study is predicated on a complete closure of the Base.

2. The Region:

Four of the region's eight counties will bear the brunt of the closing, although the other counties will certainly be effected. The four are: Philadelphia and Delaware Counties in Pennsylvania; and Camden and Gloucester Counties in New Jersey.

In Delaware County the number of unemployed will increase by 47%, in Camden County by 37%, and in Gloucester County by 53%.

Minority unemployment in the region will increase by 16.2%

Base-related households account for over $20 million in local tax revenues in South Jersey (Camden, Gloucester and Burlington Counties), and local governments will lose $10 million of these revenues if the Base closes.

The Naval Base represents $1.2 billion in wage and non-wage income to the region. Base closure would reduce income in South Jersey by $363 million and in Delaware County by $185 million.

Economic activity connected with the Base accounts for $2.1 billion in gross products in the Philadelphia Metropolitan Statistical Area. Retail sales in the region would decline by $328 million if the Base closes.

3. The States:

More than 23,000 Pennsylvania residents will lose their jobs, increasing unemployment in the state by 5.9%. Pennsylvania will lose over $24 million in state taxes: $11.4 million in income taxes; $10.9 million in sales tax receipts; and $2.4 million in business tax revenues.

About 8,000 New Jersey residents will lose their jobs. New Jersey will lose nearly $12 million in tax revenues: over $5 million in income tax yield; $5.6 million in state sales tax receipts; and $1 million in business tax revenues.

Impacts on Displaced Workers:

Civilian workers at the Base will be given priority for other job opportunities at other Defense Department locations. However, since Defense will be reducing workforce levels by 25% over the next three years, it is unlikely that significant numbers of displaced Philadelphia Naval Base workers will be able to find Defense jobs elsewhere, even if they are willing to relocate.6/

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6 The Pennsylvania State University, "Economic Adjustment to Military Base Closures in Southeastern Pennsylvania," January 1992.

During the first five years after the Base closes, the following impacts are likely to be felt by the displaced workers:7/

- The unemployment rate for those laid off will average 20%, with unemployment rates for minority workers averaging closer to 30%.

- Less than half of the displaced workers who will be re-employed are likely to be re-employed in the same general occupational category. This is particularly true for those in blue-collar, craft occupations, where the number of job openings in the Philadelphia area is expected to decrease between now and 1995.

- 56% of the re-employed blue collar workers and 42% of all other re-employed workers will suffer decreases in salary income. The earnings decrease for these workers will average 15% for all workers, but will be much higher for displaced, blue-collar craft employees.

- In addition to lost salary income, approximately 35% of the displaced workers are likely to lose all their health insurance benefits.

- For those in blue-collar occupations (two-thirds of the civilian employees at the Base), unemployment is likely to last for one year.

- 10% of the displaced workers will be re-employed only part-time.

- Between 13% and 17% of the displaced workers will leave the region.

- Approximately 15% of the displaced workers will leave the labor force through retirement or discouragement.

Conclusion:

We have presented the case for keeping open the PNSY. However, regardless of our success in keeping it open, there is another vital issue which we feel that the Conversion Commission and the Government must address. This is keeping the workers in jobs during the transition period of converting defense facilities to commercial reuse.

Currently, thousands of defense workers (including those at the Philadelphia Naval Base) are being thrown out of work with little regard by the Federal Government as to where they might go or how their talents might best be used.

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7 The following information comes from "Economic Impact of the Philadelphia Naval Base and Shipyard on the Philadelphia Metropolitan Area," by the Pennsylvania Economy League (Eastern Division) and the WEFA Group, October 1990.

There must be a national conversion strategy to ensure that the talents of the hundreds of thousands of skilled workers no longer needed for defense are transferred to non-defense work, and that the skills and facilities of the defense industrial base are properly devloped and diversified for commercial use.

As part of this strategy, the Government must recognize that conversion will take a long time, and insure that people are not thrown out of work during the interim when defense skills and facilities are changing over.

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