

GAO

Report to the Honorable
Curt Weldon,
House of Representatives

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August 1992

DEFENSE PROCUREMENT

Trends for 1985-93 in DOD'S Spending, Employment, and Contractors



92-23791



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-249402.1

August 14, 1992

The Honorable Curt Weldon
House of Representatives

Dear Mr. Weldon:

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In response to your request, we have collected information on:

- trends in Department of Defense (DOD) military and civilian employment since 1985;
- trends in the number of defense-related jobs in the private sector since 1985;
- trends in the number of DOD contractors;
- the impediments to identifying job impacts associated with changes in DOD spending at the third and fourth subcontractor tiers; and
- trends in DOD budget authority and outlays since 1985.

On June 5, 1992, we briefed a member of your staff on the information we developed to respond to your concerns regarding the economic impact of defense cuts. This briefing report summarizes that information.

Background

Real increases in annual spending for national defense occurred between 1977 and 1987. This was followed by a leveling off, a slight decline in 1990, and then a larger decline in 1991, although the rate at which planned cutbacks have been realized was slowed by Desert Storm activity. Changes in levels of defense spending have economic implications, including direct employment impacts on military and civilian DOD employees, and on companies directly or indirectly involved in defense production. Since real budget authority for defense activities peaked in 1985, there has been interest in trends in defense-related employment beginning at that time.

Full analysis of the impacts of defense spending reductions on overall employment and output requires the use of macroeconomic models, and assumptions regarding how funds diverted from defense are allocated. The Congressional Budget Office and other government agencies, as well as private companies, have estimated the effects of reductions in defense spending on the U.S. economy, with varying predicted impacts. Our efforts, as summarized in this report, did not include doing any macroeconomic analysis.

Results in Brief

According to DOD, active duty military employment increased over fiscal years 1985-87, followed by decreases through fiscal year 1991. Additional decreases are projected for fiscal years 1992 and 1993. DOD civilian employment varied slightly over fiscal years 1985-89, and then decreased through fiscal year 1991. Additional decreases are projected for fiscal years 1992 and 1993. These trends are shown in tables I.1 and I.2.

DOD estimates of defense-related employment in the private sector increased over fiscal years 1985-87, followed by decreases that yield a 1991 estimate identical to the estimate for fiscal year 1985. Additional decreases are projected for fiscal years 1992 and 1993. These trends are shown in table I.3. According to DOD's Office of the Comptroller, current estimates of defense-related employment in industry for fiscal years 1991 and 1992 do not show the level of decline earlier projected, due in part to Desert Storm activities.

Estimates of defense-related employment in industry reflect total direct and indirect employment in all industries, derived from DOD purchases of goods and services in the United States.¹ These DOD estimates, prepared by the Office of the Comptroller, are based in part on publications of the Bureau of Labor Statistics (BLS) of the Department of Labor.² These DOD estimates reflect subjective factors, and also coordination with the Office of the Assistant Secretary of Defense/Program Analysis and Evaluation.

Information on the number of firms doing business with DOD is limited. The number of prime contractors appearing each year in DOD's Individual Contracting Action Reports (Form DD-350)³ increased, decreased, and then increased again during fiscal years 1985-91. This is an indicator, but not a precise estimate, of the number of DOD's prime contractors.

We could find no source for identifying the specific number of jobs and the number of firms at the lower tiers of defense contracting. Although the estimates of defense-related employment in industry shown in table I.3 include employment at the subcontractor level and lower tiers as well as at

¹ The estimates do not include employment impacts of military assistance spending, such as grant-aid programs to Israel, Thailand, and other countries. A DOD official indicated that employment impacts of military assistance spending would be small relative to the employment estimates shown.

² The published BLS estimates are based on an input-output model of the U.S. economy, an economic model that can be used to estimate the amount of output from each industry needed to produce a given set of final products.

³ These forms are used for reporting information on procurement actions over \$25,000.

the prime contractor level, the estimates cannot be broken out according to those categories. Further, DOD contract action reports, noted above, do not identify sub- and lower tier contractors. Data on contract actions and number of prime contractors are shown in table I.4.

DOD budget authority, measured in constant dollars, decreased steadily from fiscal years 1985 through 1992, and for 1993 projections.⁴ DOD constant dollar outlays, however, showed no clear trend over the period, with both increases and decreases.⁵ These amounts are shown in table I.5.

Scope and Methodology

We reviewed DOD statistics on spending and employment contained in the National Defense Budget Estimates for Fiscal Year 1993, and supplemented that information by interviewing officials from DOD's Office of the Comptroller and the Office of the Assistant Secretary of Defense/Program Analysis and Evaluation. We also obtained information from a data base of DOD's Individual Contracting Action Reports (Form DD-350). In addition, we reviewed macroeconomic analyses of federal spending impacts and interviewed a representative from Data Resources, Incorporated, regarding its economic models used to estimate the impact of projected defense spending cuts on the U.S. economy.

As requested, we did not obtain DOD comments on this report. However, we discussed the information in this report with the appropriate DOD program official, who concurred with the report.

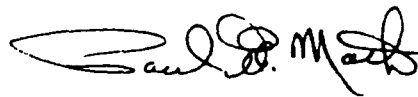
⁴Congressional appropriations provide budget authority to enter into obligations for payment of government funds.

⁵Outlays are payments on DOD obligations. Outlays during a fiscal year may be for payment of obligations incurred during prior years as well as the current year.

We plan to send copies of this briefing report to the Secretary of Defense and to other individuals on request.

Please contact me on (202) 275-4587 if you or your staff have any questions concerning this briefing report. The major contributors to this report were Kevin Tansey, Assistant Director; Rosa Johnson, Evaluator-in-Charge; and Celia Thomas, Senior Economist.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul Math". The signature is stylized with a large, sweeping initial "P" and a cursive "M".

Paul Math, Director
Research, Development,
Acquisition and Procurement Issues

DOD's Employment, Contractors, and Spending

**Table I.1: DOD Active Duty Forces,
Fiscal Years 1985-93**

In thousands

Fiscal year	Army	Navy	Marine Corps	Air Force	Full-time Guard and Reserves	Total ^a
1985	781	571	198	602	55	2,206
1986	781	581	199	608	64	2,233
1987	781	587	200	607	69	2,243
1988	772	593	197	576	71	2,209
1989	770	593	197	571	72	2,202
1990	751	583	197	539	74	2,143
1991	725	568	195	511	75	2,077
1992 ^b	641	551	188	485	72	1,937
1993 ^c	599	536	182	450	68	1,834

^aRows may not add to total due to rounding.

^bBased on approved budget authorization levels.

^cBased on requested budget authorizations.

Source: National Defense Budget Estimates for Fiscal Year 1993 and interviews with DOD's Office of the Comptroller.

**Table I.2: DOD Civilian Work Force,
Fiscal Years 1985-93**

In thousands

Fiscal year	Army	Navy and Marine Corps	Air Force	Defense agencies and others	Total ^a
1985	420	353	264	92	1,129
1986	413	342	263	94	1,112
1987	418	353	264	98	1,133
1988	393	348	253	96	1,090
1989	403	354	261	99	1,117
1990	380	341	249	103	1,073
1991	365	329	233	117	1,045
1992 ^b	331	312	218	140	1,001
1993 ^c	309	283	214	151	958

^aRows may not add to total due to rounding.

^bBased on approved authorization levels.

^cBased on requested budget authorizations.

Source: National Defense Budget Estimates for Fiscal Year 1993 and interviews with DOD's Office of the Comptroller.

**Appendix I
DOD's Employment, Contractors, and
Spending**

Table I.3: DOD Forces and Defense Industry Employment, Fiscal Years 1985-93

In thousands

Fiscal year	DOD forces^a	Defense-related employment in industry	Total^b
1985	3,335	3,100	6,435
1986	3,345	3,315	6,660
1987	3,376	3,365	6,741
1988	3,299	3,310	6,609
1989	3,319	3,295	6,614
1990	3,216	3,150	6,366
1991	3,122	3,100	6,222
1992 ^c	2,938	3,050	5,988
1993 ^d	2,792	2,700	5,492

^aThese figures represent the total of military and civilian forces shown in tables I.1 and I.2.

^bRows may not add to total due to rounding.

^cBased on approved budget authorization levels.

^dBased on requested budget authorizations.

Source: National Defense Budget Estimates for Fiscal Year 1993 and interviews with DOD's Office of the Comptroller.

Table I.4: DOD Contractors, Fiscal Years 1985-91

Dollars in billions

Fiscal year	Contract actions	Contracts	Prime contractors	Dollars
1985	237,000	127,000	34,000	\$159
1986	242,000	129,000	37,000	154
1987	243,000	127,000	37,000	151
1988	233,000	115,000	34,000	144
1989	210,000	103,000	31,000	134
1990	221,000	102,000	32,000	137
1991	237,000	101,000	32,000	145

Source: DOD Contracting Form DD-350 Action Reports on procurement actions over \$25,000. Figures are based on the number of new contract obligations reported in the data base and include some double counting because of spelling variations in the names of some contractors.

**Appendix I
DOD's Employment, Contractors, and
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**Table I.5: DOD Budget Authority and
Outlays, Fiscal Years 1985-93**

Constant fiscal year 1993 dollars in billions

Fiscal year	Budget authority	Outlays
1985	\$376	\$320
1986	359	339
1987	346	340
1988	339	338
1989	334	340
1990	326	324
1991	309	278
1992 ^a	287	306
1993 ^b	268	278

^aBased on approved budget authorization levels.

^bBased on requested budget authorizations.

Sources: National Defense Budget Estimates for Fiscal Year 1993 and interviews with DOD's Office of the Comptroller.