

Framework for Defense Transition Assistance

2013

Rationale

As we begin to wind down from two wars, “The defense sector is undergoing the kind of correction that happens once every 20 or 30 years,” according to Booz & Co.’s 2013 Defense Industry Perspective.

The coming defense downsizing will be challenging for the many communities across the country whose economies have been shaped by the sharp increases in military spending of the post-9/11 period. They will need help adjusting and creating new economic opportunities to replace a jobs base that has become dependent on surging military budgets.

One other dimension of our current historical landscape suggests a way to turn this challenge into opportunity: In a year of record droughts and attendant crop failures, followed by the punishing winds and waves of Hurricane Sandy, the signs of climate stress, and of the need for a clean energy and transportation transition, are becoming unmistakable. As we seek to turn toward nation-building at home, the framework for federal initiatives to assist defense-dependent communities should therefore prioritize pathways to help these communities find opportunities for economic development in the emerging clean energy and transportation economy.

The framework for assistance has three parts:

1. **Strengthening existing programs useful for community economic transition**
2. **Reviving programs that were the most effective in smoothing the previous defense downturn**
3. **Initiating new programs to fill critical gaps and respond to current conditions**

Implementation

Legislation based on this framework could be attached, in whole or in part, to a job creation bill in the new congressional session, or to regular legislation such as the Defense Authorization Act (NDAA), or could be introduced as stand-alone legislation. Some portions could be implemented administratively. One option for funding would follow the precedent of the previous post-Cold War defense downsizing with legislation to transfer funds from the Department of Defense to the Departments of Labor and Commerce.

1. **Strengthening existing programs**

Federal assistance relevant to defense community economic transition is currently available in four areas: community planning, technical assistance, job retraining and finance.

Community planning

The Commerce Department offers planning grants to help communities undergoing economic dislocations to examine existing local and regional economic strengths and new areas of development. Implementation grants are also available. Special emphasis is given to “national strategic priorities” including initiatives for job growth and business expansion in clean energy, green technologies and sustainable manufacturing.

Recommendation: Revise the program objectives to give higher priority to helping communities adjust to private sector defense downsizing.

Through its Office of Economic Adjustment the Defense Department also offers planning grants, technical assistance and community development block grants for communities undergoing defense transitions, both for base closure and redevelopment, and for adjustment to private sector defense job loss. In recent years this office's work has focused almost exclusively on base closure redevelopment.

Recommendation: For the coming period, shift the focus of the OEA toward helping communities that are adjusting to loss of defense jobs in the private sector. In the event a new BRAC process is authorized, balance the agency's focus between base community and private sector defense community economic development. Also, modify the assistance model to put more emphasis on working with local planning entities and to integrate planning for defense downsizing with existing local master plans.

Technical Assistance

The Commerce Department also administers a network of Manufacturing Extension Centers (MEP) helping small- and medium-sized manufacturers to innovate and grow. MEP calculates each dollar of its investment generates an average of \$30 in new sales growth for its client companies.

A new Energy Regional Innovation Cluster (E-RIC) pilot program through MEP is intended to spur regional economic growth through the development of energy efficient building technologies, designs and systems.

Recommendation: Increase funding for MEP. Restore the expertise that MEPs developed in the post-Cold War period to assist companies adjusting to the loss of defense contracts. Add a focus on helping these companies adapt their capabilities for green technology manufacture.

Job retraining

The Department of Labor's Employment and Training Administration coordinates federal job training programs. The Recovery Act funded training focused on creating a skilled energy efficiency and renewable energy workforce. These funds have expired, and job-training funds in general have been cut back.

Recommendation: Preserve and expand job retraining programs focused on green jobs and adjustment for dislocated defense workers.

Finance

The Commerce, Energy and Treasury Departments all administer programs offering grants and loans for economic development focused on the clean energy and transportation sectors. Some were funded by the Recovery Act, now expired.

Recommendation: Expand funding and improve coordination among programs offering support for a transition to a clean energy and transportation economy.

Additional information on all of these programs is available at: <http://www.fpif.org/files/5073/federal-resources.doc>.

2. Restoring programs that were the most effective in smoothing the post-Cold War defense downsizing.

Between 1990 and 1997, nearly \$20 billion was spent for purposes broadly related to the post Cold War downsizing. Of this, \$8.6 billion did not facilitate a transition to production for the civilian sector, but rather was devoted to new defense technology initiatives. Of the remaining \$12.4 billion that was well-targeted to facilitate

the defense transition, \$3.8 billion went for separation benefits for demobilizing military personnel; nearly \$1.6 billion went to assist defense workers and communities, and about \$5.7 billion went to stimulate new high-tech industries. These proportions are reasonable; since the defense economy is now much larger, the amounts must be adjusted accordingly.

Technology Transfer

One of the largest and most innovative parts of the program was the Technology Reinvestment Project (TRP). It was a multi-agency program offering nearly \$800 million in grants to consortia of large and small manufacturers in both the defense and commercial sectors, nonprofits and labor unions, universities, national labs and other partners to facilitate the transfer of defense technologies to the civilian sector. While the program had many important successes, they were limited by the excessively high priority given to dual-use projects—that is, projects designed to produce technologies applicable to both the defense and civilian sectors.

Recommendation: Recoup some of the nation’s investment in increased defense R&D spending by instituting a new Technology Reinvestment Project whose priority is developing new civilian uses for defense technology. Selection criteria should prioritize job creation, green economy transition and technological development that contributes to the productivity of the US economy as a whole, and to the revival of U.S. manufacturing, not military use or dual-use.

Community adjustment and worker retraining

Of the core programs offering community adjustment and worker retraining assistance, the best were a small subsection of pilot programs funded by the Defense Department and administered through the Labor Department. They funded projects testing innovative ways to help employers retool, restructure and retrain to avoid layoffs; retraining defense workers for new jobs; helping communities develop comprehensive plans to help dislocated workers; and supporting locally-initiated strategies for defense transition.

Recommendation:

Establish a fund for projects adapting these models to the conditions of the 21st century, and prioritizing the transition of defense workers and technologies to the needs of a transition to a clean energy and transportation economy.

Finance

The Defense Department transferred a modest amount to the Small Business Administration to underwrite approximately \$1 billion in loans for small and medium-sized defense businesses seeking to move into commercial areas. While some of these loans achieved their purpose, the program was, like the TRP, hamstrung by the excessive focus on military and dual-use technology.

Recommendation: Recreate this program and refocus it toward providing small and medium-sized defense contractor companies with financial assistance to diversify into production for the commercial sector, giving priority to energy efficiency and clean energy and transportation technology.

3. Initiating new programs filling critical gaps and responding to current conditions

National Network for Manufacturing

While the defense-dependent economy is multi-faceted, its core—and the source of most of its high-wage, high-skill jobs—is manufacturing. The Obama administration has prioritized the revival of U.S. manufacturing. It has proposed a National Network for Manufacturing which would establish as many as 15 Institutes for Manufacturing Innovation, one of which focuses on environmentally sustainable technology. The proposal is as yet unfunded, though a pilot institute is supported by an investment of \$45 million from the Departments of Defense, Energy and Commerce and the National Science Foundation. The priorities for the initiative include an increased role for workers and communities in creating and sharing in the gains from innovative manufacturing.

Recommendation:

Increase the focus of this initiative on manufacturing to make the U.S. a leader in the growing world market for clean energy, lightweight materials, and efficient appliances, lights, computers, and vehicles. And develop mechanisms for incorporating in this initiative the national objective of creating new economic opportunity for currently defense-dependent communities.

Technology Transfer

Several of the national labs have developed a focus on clean energy technologies. One, the National Renewable Energy Lab (NREL) is devoted solely to this purpose. For others it is a sidelight to their main focus on developing defense technology. In the post-cold war period the labs began to set up Cooperative Research and Development Agreements (CRADAs) with private entrepreneurs to facilitate the commercialization of this technology.

Recommendation: To align the labs' operations with the national need to strengthen the economy during a period of defense downsizing, prioritize the goal of facilitating the commercialization of defense technology.

The Defense Department is spending about \$1.2 billion a year from an "Operational Energy" budget to increase the energy efficiency of its own operations. These expenditures offer potential benefits for clean energy innovation for the economy as a whole.

Recommendation: In setting selection criteria for technologies to fulfill DoD's own clean energy goals, require that the agency establish a preference for those that hold an advantage in adaptability to the civilian energy sector.

Assistance to Demobilizing Servicemembers

Recent experience indicates that servicemembers demobilizing in the downsizing will face special challenges in securing civilian employment.

Recommendation: Fix the current GI Bill by expanding the benefit to include vocational training. Pass the "Veteran Employment Assistance Act" (H.R. 5120/S. 3234) to provide direct assistance to veteran-owned small businesses, improve DoD's Transition Assistance Program, help veterans secure vocational certificates based on their service, and provide a tax credit to employers who hire veterans.

Conclusion

As our nation begins its post-Iraq and Afghanistan war defense downsizing, we must provide for the workers and communities that will be affected. If we do this right, this challenge can become an opportunity to support the clean energy and transportation transition we must undertake.

Miriam Pemberton, Research Fellow, Institute for Policy Studies, 202-787-5214; miriam@ips-dc.org

