CHAPTER 38

MILITARY & ECONOMY

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"Just how important is the military to Hawai'i's economy?"

The U.S. Defense Department budget has been targeted for massive cuts. The debate over where to cut and how much to cut has been, and will continue to be, an intensely political process. It will also be slow. Affected areas will feel the actual cuts when they occur, but even speculated cutbacks can be critical to regional economies.

Hawai'i's stake is hard to overestimate. A few other states are looking at larger numbers, but Hawai'i is at the top of the "vulnerability list" when the relevant criterion is share of state output.

Historical perspective. Hawai'i's economy grew dramatically during World War II. The annual rate of growth in personal income averaged 36 percent from 1940 to 1944. Predictably, Hawai'i's economy underwent an extreme contraction after the war, primarily because of reduced military spending. Personal income fell at an average annual rate of 15 percent from 1945 to 1949.

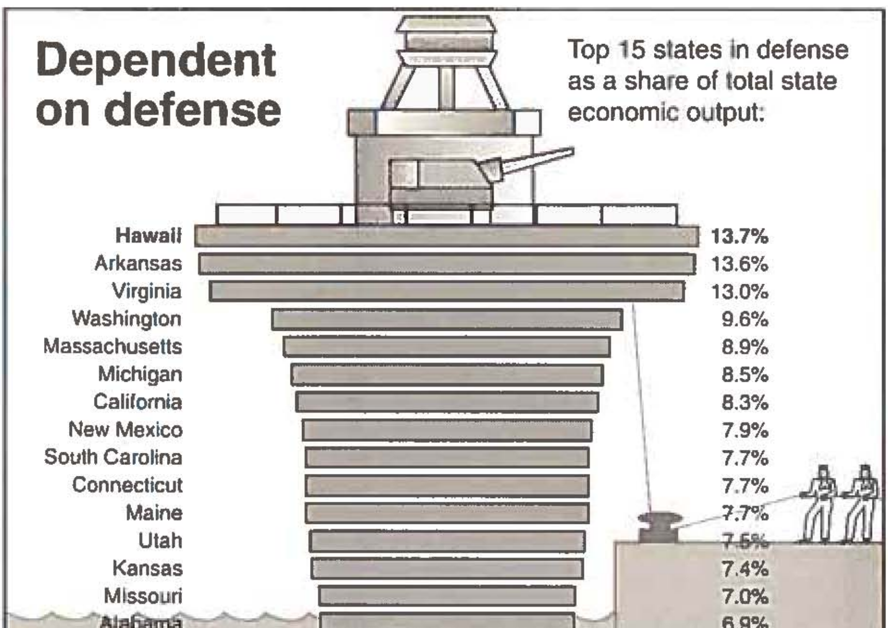
The military's percentage contribution to Hawai'i's economy has been shrinking steadily since then, but that has been due to growth elsewhere in our economy (i.e., tourism) rather than to a diminishing defense sector. Over the long haul, the military's contribution to our economy has been more stable than either tourism or agriculture.

The military in Hawai'i today. The military currently controls about 5 percent of land in the state—239,000 acres. By comparison, the State of Hawai'i controls 28 percent. About 10 percent of military land is owned in fee and 38 percent is leased from private owners. The remaining 52 percent is on loan from the state, which sets terms and compensation. Nine military properties have been conveyed to the state or sold since the 1970s, not including soon-to-be conveyed Kaho'olawe and Barber's Point.

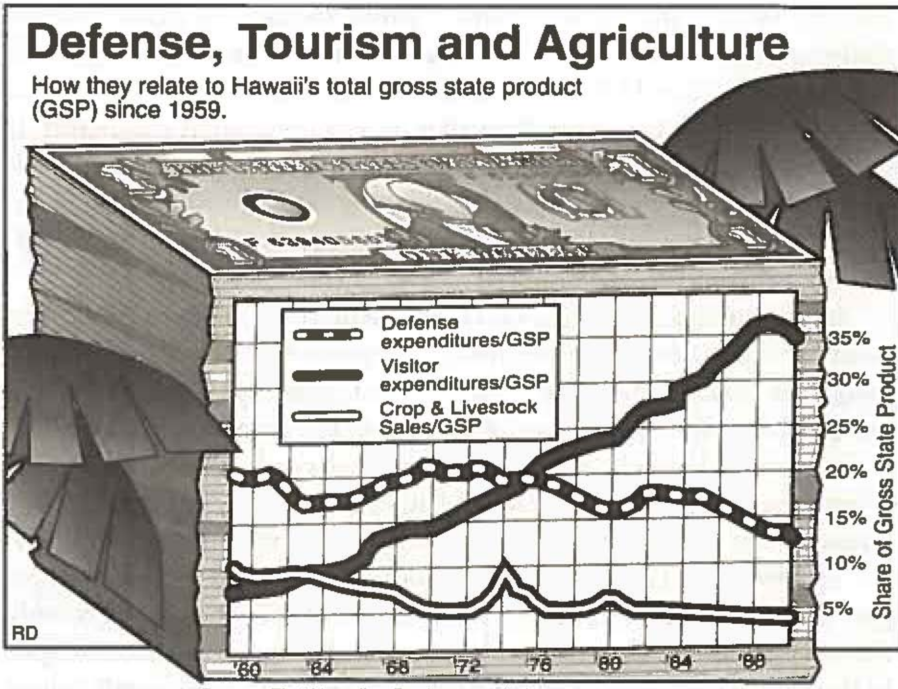
Hawai'i's military installations are concentrated on densely populated O'ahu, where they occupy 23 percent of the land. Of that, 35 percent is owned in fee, 45 percent leased from private owners, and 20 percent on loan from the state.

Today, the total military expenditures in Hawai'i annually amount to about 12 percent of the annual gross state product. Despite the steady shrinkage of the military's economic role since World War II, the defense sector still ranks as Hawai'i's number-two export industry, after tourism.

The military's future in Hawai'i. Even if Hawai'i were untouched by cutbacks, the military's percentage contribution to our economy would continue to drift downward. This is because the rest of Hawai'i's



Source: The Conference Board. Cited in Heather Dillenbeck, "Defense Cuts Won't Solve the Budget Problem," NABE News, March 1993.



Source: First Hawaiian Bank research department.

economy is expected to grow at some pace, while military expenditures are virtually certain not to increase. A realistic goal is to maintain that downward drift rather than lapse into a free fall. Sudden change would result in substantial hardship to many people in Hawai'i.

Hawai'i's vulnerability is more related to bases and personnel than to defense contracting firms. Thus, we will escape hits like those to California, where massive layoffs associated with a weakening defense industry have been particularly painful.

There has been much talk about programs that would facilitate the conversion of military technology to civilian applications. Hawai'i would not benefit significantly from this sort of thing because we have bases and personnel but very little else. Any "conversion funds" headed our way probably would take the form of direct subsidies, displaced worker training, or funding for new industry startup. Provision of any such funds is highly tentative in any case.

Hawai'i's advantages. Hawai'i's distinguishing characteristics include a strategic location and role as a command headquarters. Bases here are far forward, yet still in the United States. The global responsibility of the Hawai'i-based Commander-in-Chief Pacific (CINCPAC) extends from the U.S. west coast to the east coast of Africa, a geographic reach far larger than that of any other such command. It includes or at least serves logistically challenging spots such as North Korea, one border of the still volatile former Soviet Union, China and Southeast Asia, India/Pakistan, and the Middle East/Persian Gulf. Many of these areas are political hot spots that may get hotter.

In an atmosphere of federal budget reduction, combined with the collapse of the Soviet Union, some may forget that the world is still a dangerous place. The Cold War at least gave the world a certain predictable stability. Instead of a contest for global supremacy, the world now will likely see smaller regional conflicts that might be characterized as wars of interest, ethnicity, religion, culture, or conscience. The Gulf War, Somalia, and Bosnia stand as recent examples.

The fact that Hawai'i is in the middle of the Pacific Ocean and yet part of the United States is a critical advantage. Although we're only three to five hours closer than the mainland by air to any trouble spot in the CINCPAC area, airlift capacity and turnaround complications involved in massive deployments multiply that difference. And what is true for airlift is even truer for ships. In short, we have something the rest of the states will never have: location.

Obstacles to overcome. Despite Hawai'i's natural advantage, advocates of maintaining bases here must overcome several obstacles. The first is a certain Eurocentrism in global strategic affairs. Throughout the Cold War, it was the Soviet threat to Europe that was foremost in many minds. The Pacific has been viewed in some international circles more as an economy of force theater—one less likely to ever receive large increases in funding and resources.

Another obstacle is the fact that many people in Hawai'i fail to appreciate the military. Other places with a major military presence seem more aware of the military's contribution to their local economies and are willing to do more to retain it. In Hawai'i, this neglect is exacerbated by several factors: among them are scarce land and housing, native Hawaiian sovereignty issues, and environmental questions.

The greatest obstacle to maintaining military bases in Hawai'i is the same factor that discourages our economy's diversification into entirely new enterprises. Like so many other undertakings in Hawai'i, military installations are extremely expensive to operate. In the past, cost may not have been the overriding factor in Pentagon decisions, but it has kept Hawai'i's bases under constant scrutiny. The military, ever concerned about the welfare and quality of life of its personnel, does not look favorably on the economic hardships that must be endured by those stationed here as a result of our high cost of living.

Critical mass. There is a certain critical mass in maintaining military functions in Hawai'i. Reduction beyond some point is likely to mean relocation of an entire force. A good example is land now used for training. It may seem rational to convert some such properties to civilian use, but failure to provide training facilities locally may lead to the loss of the units that use them.

One specific example concerns the possible loss of the Pohakuloa Training Area (PTA) on the Big Island. This area has cultural significance and is home to several endangered species, so both Hawaiian

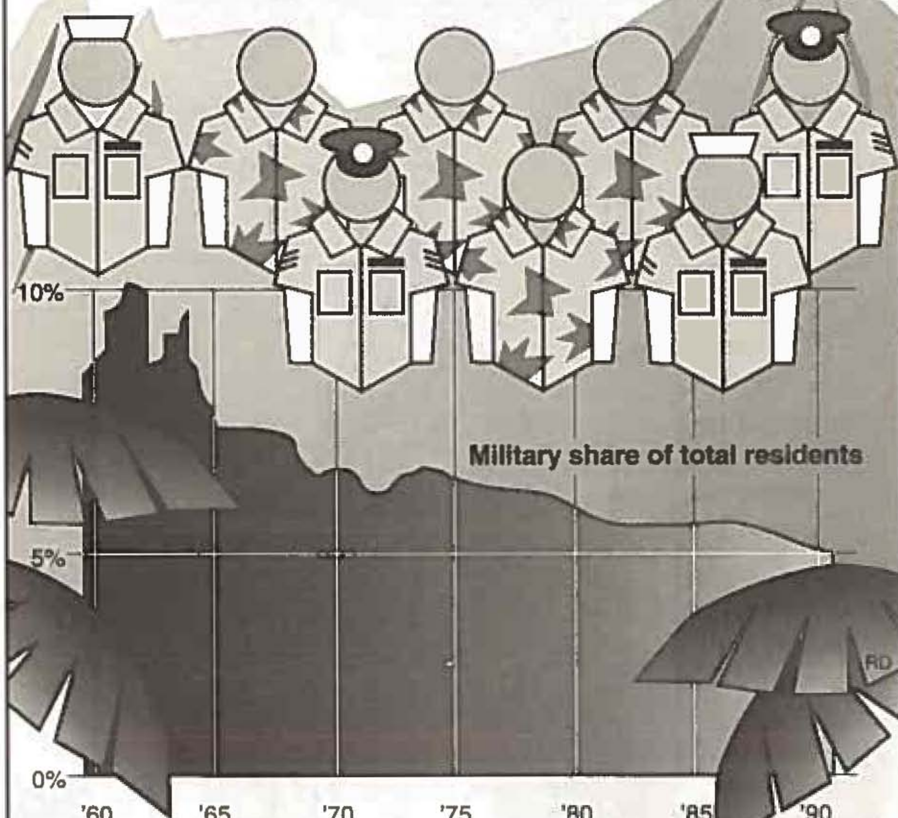
rights and environmental forces are working hard to "liberate" the PTA from military occupation. But if the PTA is lost, arguments for stationing ground troops in Hawai'i are weakened greatly. The 25th Light Infantry Division at Schofield Barracks and the Marine Expeditionary Brigade at Kane'ohe Marine Corps Air Station might then be withdrawn.

Conclusion. In land-short Hawai'i, any conversion of military real estate to civilian use is tempting. But, when one balances the known economic contributions from military use against the possible benefits of any proposed civilian use, it is far from clear that the latter is more desirable. This is particularly true in that the military use qualifies unambiguously as a true "export" industry—one that brings money to the state rather than simply recirculating what's already here. Civilian use—a housing project, for example—might provide a temporary injection to the construction industry, but it would not continue to inject external funds into the economy year after year as the military does.

It is often overlooked that many businesses in Hawai'i that give the economy a diversified appearance owe their existence to secondary spending out of the military's primary export stream. As tourism slows, agriculture fades, and diversification into new export industries eludes the state, keeping the military is all the more important.

The force of the Armed Forces

Since statehood, the military's share of total residents in Hawaii has declined.



Source: State of Hawai'i, Department of Business, Economic Development and Tourism, Data Book 1992, table 3.

'A gusher! From number one well...'