# Defense Stocks Disadvantage

**By: Dustin Rimmey, Topeka High School, Kansas**

**Resolved: The United States federal government should substantially reduce Direct Commercial Sales and/or Foreign Military Sales of arms from the United States.**

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| --- |
| Summary: I love a good ol’ investor confidence disadvantage. This one is a riff on the Defense Industrial base disadvantage that a lot of teams have been reading so far this year. The thesis of this disadvantage is that the plan will crush confidence in the DIB in the stock market, which will reduce the number of individuals who wish to invest which will increase overall stock market volatility, collapsing the economy. |

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## Tippy Top

### 1NC

#### Defense Industry set for a market rally now

Josh Enomoto, Investorplace Contributor, 9-18-2019, "10 Defense Stocks to Buy During Rising Geopolitical Tensions," InvestorPlace, <https://investorplace.com/2019/09/10-defense-stocks-to-buy-during-rising-geopolitical-tensions/>

Remarkably, the Trump administration has not yet started a war despite multiple geopolitical flash points. On top of the ongoing trade war with China, the U.S. must contend with a number of tense situations. Therefore, defense stocks are particularly relevant now. Initially, this may sound like a strange statement to make. After all, even the most bullish investors will concede that this market rally has overextended itself. Thus, we should welcome a correction to work out some of the excess optimism. Under this environment, the best stocks to buy feature protective elements, such as strong track records of dividend payouts. Obviously, defense stocks primarily take the term protection quite literally. But even though President Trump — who is typically aggressive with his word choice and blunt with his delivery — is uncharacteristically quiet about certain geopolitical situations, don’t mistake that for an immediately peaceful resolution. We have many problems that will require a big stick, and perhaps the capacity to wield it. For instance, the situation in Iran may soon reach a fever-pitch. Trump opted to hit the country with economic sanctions in response to Iran downing an American military drone. But in response, Iranian President Rouhani called the White House “[mentally handicapped](https://www.nytimes.com/2019/06/25/world/middleeast/iran-rouhani-us-sanctions.html).” Outraged, Trump threatened to obliterate parts of Iran if they attacked any more American assets. That is just begging for an uptick in defense stocks. Iran is just one of several geopolitical flashpoints. And behind each one looms Russia, supporting interests antithetical to our own. Again, this situation is begging for a defense-industry rally. Here are the 10 best stocks to buy in this sector:

#### Restrictions create a spiraling negative market reaction.

Atsushi Tago 12. Associate Professor of International Relations at Graduate School of Law, Kobe University and Gerald Schneider is Professor of International Politics at the University of Konstanz, Germany, “The Political Economy of Arms Export Restrictions: The Case of Japan”, Japanese Journal of Political Science, Sept 2012, https://www.researchgate.net/publication/233780864\_The\_Political\_Economy\_of\_Arms\_Export\_Restrictions\_The\_Case\_of\_Japan

Unanticipated political events and developments do not only influence the general market, but have also substantial redistributive effects. Herron et al. (1999) for instance show that the altering prospects of US presidential candidates in the 1992 elections have affected the stock returns of 15 out of 74 sectors. In the view of these authors, ‘the pro Clinton bias of aerospace and defense is a function of Clinton’s interest in industrial policy and worker training initiatives’. The developments in the era of George W. Bush might have changed the partisanship of the US defense sector. Halliburton, for which Vice President Cheney was the CEO from 1995to 2000, cashed in orders worth 11 billion dollars in the period from 2002 to 2002 in Afghanistan and Iraq.13 234 The defense sector, which almost completely depends on government orders, also responds to other political events. Bechtel and Schneider (2010) disclose that the summits of the European Union heads of state and government, who regularly convene within the European Council, can have considerable redistributive effects if these multilateral meetings end with a substantial decision. On average, the value of the sector increased by about 4 billion Euro following a summit decision that strengthened member states’ common defense policy and security objectives. Similarly, the returns of the defense sector strongly respond to military expenditures. Capelle-Blancard and Couderc (2008) show that publication of financial statements and other firm-relevant events influence the performance of defense stocks. Obviously, war events influence the stock market returns of the armament industry, too, although the effects are to some extent ambiguous. While an increase in the hostilities in the Korean War lowered the returns on investment in the armament and consumer goods industries, the development in the Vietnam War provoked growing returns (Kaun, 1990). Berrebi and Klor (2010: 541) document in an analysis of Israeli Q2 249 firms similarly ‘that terrorism has a positive effect on the stock-market valuation of companies involved with defense, security or anti-terrorism products or clients, and a significantly negative effect on that of other companies’. According to DellaVigna and La Ferrara (2010), companies in highly corrupt countries violate arms embargoes more often than manufacturers that reside in states with lower levels of corruption. Chaney’s (2008) analysis of the Iraqi bond yield spread reveals moreover that traders reacted to overtures towards Iran, but did not respond systematically to events which politicians portrayed as milestones towards democracy. In this article, we develop, based on this emerging literature, a rational expectations model to account for the stock market reactions to defense policy statements and decisions on the Japanese arms exportation restrictions. We expect in line with the semi-strong version of the market efficiency thesis (Fama, 1965) that traders will absorb any information considered to be relevant for the profitability of a specific asset and that they know about its past performance on the market. The magnitude of a stock market reaction accordingly depends on how surprising a credible news report was. This hypothesis necessitates that we clearly differentiate between leaks and official statements in the empirical analysis. Media disclosures are by nature surprising, and we only need to assess whether the report is in favor or against the interests of the armament industry to anticipate either a positive or a negative effect. Official statements, by contrast, are often expected, not the least because of the piecemeal nature of Japanese policy reforms. The government cabinet typically decides on defense matters in December and announces a policy change or the preservation of the status quo as part of the review of Boei taiko (National Defense Program Guideline). Nevertheless, even anticipated policy changes have market effects if the decided changes fall short of the expectations of the traders or if they anticipated a much tamer reform than the one finally delivered. In other words, the financial sector reacts negatively to announcements which dash its hopes for an easing of the arms exportation policy and positively to what it considers to be exceptionally good news in the form of more radical changes. Obviously, the reactions depend on who is responsible for the policy announcement. As in other political systems, statements by the Prime Minister or the Defense Minister carry more credibility that the declared policy reforms will really be delivered than announcements by civil servants or junior ministers. However, this increased trustworthiness comes at the price of increasing leverage that high-level politicians possess and that may entice them to make ‘spontaneous’ remarks far away from the party line. One example was Prime Minister Abe, who had well-known credentials as a conservative, but who nevertheless showed some concern over the possible further easing of the arms export restrictions. We nevertheless expect that LDP politicians are more open towards a liberalization of the restrictions, not the least because of the close contacts this party has entertained over decades with the defense industry. If governments run by other parties reform the policy, the market reaction should, in other words, be more pronounced than the one attached to an equivalent move made by the traditional government party after World War II.

#### Defense stocks are key to prevent stock market decline

Sheetz 9/9 (Michael Sheetz, 09-09-2019, “Goldman has the perfect stocks to buy amid the recession and trade war fears gripping the market,” CNBC, https://www.cnbc.com/2019/09/09/goldman-sachs-perfect-stocks-for-market-fears-of-recession-trade-war.html)

Whether a recession is just around the corner is a hotly debated topic among U.S. stock market investors, especially as the trade war with China drags on and some economic indicators flash warning signs. Expecting the U.S. to narrowly avoid a recession, Goldman Sachs recommends one group of stocks with a good track record in this type of precarious environment: aerospace and defense companies. As a bonus, Goldman Sachs analyst David Kostin said, aerospace and defense stocks come “with the lowest exposure to China.” Kostin’s recommendation comes as a response to the decline in the ISM manufacturing index, which last week fell below 50 points for the first time in three years. A reading below 50 indicates a contraction. While some may raise concern about the drop, Kostin called the index “an inconsistent predictor of US recessions.” But Kostin noted that, when a recession didn’t occur following the ISM dropping below 50, aerospace and defense stocks outpaced the growth of the S&P 500 in the six months after. WATCH NOW VIDEO06:36 Joseph Stiglitz on what will cause the next recession So in other words, when economic conditions deteriorate but ultimately do not lead to a recession, the stock market typically does well in this period with defensive-type stocks outperforming. The S&P 500 has historically gained 22% in the six months following an ISM contraction that doesn’t lead to a recession. And aerospace/defense stocks do even better, gaining an additional 2.5% during the same period, Goldman found. “During the past 10 years, Aerospace & Defense has been least sensitive to US and global economic growth across Industrials subsectors,” Kostin said.

#### Stock market declines can collapse the economy

Barro ’17 (Robert J. Barro – PhD in Economics @ Harvard University, Paul M. Warburg Professor of Economics @ Harvard University, senior fellow of the Hoover Institution of Stanford University, and a research associate of the National Bureau of Economic Research. José F.Ursúa – PhD candidate in Economics @ Harvard University, “Stock-market crashes and depressions,” *Research In Economics*, Volume 71, Issue 3, September 2017, ScienceDirect)

5. Conclusions and future research The long-term history for 30 countries indicates that stock-market crashes (cumulative real returns of –0.25 or worse) have substantial predictive power for depressions (cumulative macroeconomic declines by 10 percent or more). In a non-war environment, the realization of a stock-market return of –0.25 or worse implies that the probability of a minor depression (macroeconomic decline by 10 percent or more) is 22 percent, and the probability of a major depression (decline by 25 percent or more) is 3 percent. When the stock return is –0.40 or worse, the corresponding depression probabilities are 30 percent and 4 percent. The probabilities are 46 percent and 8 percent, respectively, when a stock-market crash of –0.25 or worse in a non-war period is accompanied by a currency or banking crisis and occurs during a time of global economic turmoil. Given the stock-market crashes for the United States and other countries in 2008 (characterized as non-war, featuring a currency or banking crisis, and occurring during a global event), these last probabilities applied at the beginning of 2009. The long-term data also show that the majority (67 percent) of minor, non-war depressions are accompanied by stock-market crashes, whereas most major, non-war depressions (83 percent) are accompanied by these crashes. Therefore, in the absence of a stock-market crash, the occurrence of a depression is highly unlikely. The full history of 3037 annual observations reveals 71 matched cases of stock-market crashes and depressions, of which 41 percent are associated with war. The years contained in the 71 cases constitute 12 percent of the overall sample (because the average duration of a crisis was 4.9 years). The co-movement between stock returns and macroeconomic changes for the 71 cases may be sufficient to explain the observed equity premium of 7 percent, assuming that the coefficient of relative risk aversion is between 3.5 and 4. The required coefficient falls to 3.5 or less if we bring in the additional 19 percent of the sample that features a stock-market crash or depression but not both. A crucial aspect of this analysis is that the computed covariances allow for a flexible timing pattern between stock returns and macroeconomic changes. In future research, we plan to assess this flexible covariance approach in more detail. Part of this research involves the roles of missing data and wartime price controls, which can distort the covariances calculated from a rigid timing structure.

#### Economic decline causes nuclear war

Eric Mann, Master of Arts in Global Security Studies Johns Hopkin, “AUSTERITY, ECONOMIC DECLINE, AND FINANCIAL WEAPONS OF WAR: A NEW PARADIGM FOR GLOBAL SECURITY,” May 2014, <https://jscholarship.library.jhu.edu/bitstream/handle/1774.2/37262/MANN-THESIS-2014.pdf>

The conclusions reached in this thesis demonstrate how economic considerations within states can figure prominently into the calculus for future conflicts. The findings also suggest that security issues with economic or financial underpinnings will transcend classical determinants of war and conflict, and change the manner by which rival states engage in hostile acts toward one another. The research shows that security concerns emanating from economic uncertainty and the inherent vulnerabilities within global financial markets will present new challenges for national security, and provide developing states new asymmetric options for balancing against stronger states. The security areas, identified in the proceeding chapters, are likely to mature into global security threats in the immediate future. As the case study on South Korea suggest, the overlapping security issues associated with economic decline and reduced military spending by the United States will affect allied confidence in America’s security guarantees. The study shows that this outcome could cause regional instability or realignments of strategic partnerships in the Asia-pacific region with ramifications for U.S. national security. Rival states and non-state groups may also become emboldened to challenge America’s status in the unipolar international system. The potential risks associated with stolen or loose WMD, resulting from poor security, can also pose a threat to U.S. national security. The case study on Pakistan, Syria and North Korea show how financial constraints affect weapons security making weapons vulnerable to theft, and how financial factors can influence WMD proliferation by contributing to the motivating factors behind a trusted insider’s decision to sell weapons technology. The inherent vulnerabilities within the global financial markets will provide terrorists’ organizations and other non-state groups, who object to the current international system or distribution of power, with opportunities to disrupt global finance and perhaps weaken America’s status. A more ominous threat originates from states intent on increasing diversification of foreign currency holdings, establishing alternatives to the dollar for international trade, or engaging financial warfare against the United States.

### Block—UQ/Link Wall

#### 1. Small restrictions like the plan can tank investor confidence across the stock market

Atsushi Tago is Associate Professor of International Relations at Graduate School of Law, Kobe University and Gerald Schneider is Professor of International Politics at the University of Konstanz, Germany, “The Political Economy of Arms Export Restrictions: The Case of Japan”, Japanese Journal of Political Science, Sept 2012, https://www.researchgate.net/publication/233780864\_The\_Political\_Economy\_of\_Arms\_Export\_Restrictions\_The\_Case\_of\_Japan

6. Conclusion This article provides additional empirical evidence to support the existing argument which connects political decision-making processes to the ups and downs the political economy of arms export restrictions of the defense industry on the stock market (e.g. Schneider and Troeger, 2006; Bechtel and Schneider, 2010). While previous studies suggested that a change of political leadership in Japan did not affect financial markets (Ling and Wang, 2007), this Q1 article shows that markets are nevertheless influenced by political announcements and decisions which directly affect the ordering book of the industry. The analysis particularly shows that mainly surprising news in the form of leaks that lead to increases in the return of armament producers. However, investors carefully consider whether a producer will really be ready for conquering foreign markets once the anticipated policy changes become effective. The defense sector did not only react to positive news. The announcement by Defense Minister Ohno in January 2000 that the policy would not be relaxed was unsurprisingly met by a negative market reaction. The analysis suggests more generally that financial market reactions allow us to measure the redistributive effects of real and of attempted policy reforms. The failure of many studies to obtain clear evidence in favor of the thesis that some investors profit from increased tensions in the international scene is mostly due to the high level of temporal aggregation in which these studies are conducted. The analysis suggests that security policy measures have economically modest but politically salient economic repercussions also for a still largely pacifist society like the Japanese one. Finally, econometric analyses of financial markets increase the transparency of the political and economic decision-making process. The demonstration of how much investors into the armaments industry profit from individual political decisions making helps to qualify a discussion which frequently fluctuates between demonization and extenuation.

#### 2. The Defense Industrial Base depends on revanue from arms sales to fill budget deficits. The plan collapses investor confidence.

Webster 18 (Keith, VP of Chamber of Commerce, Pres of Defense and Aerospace Export Council, "It's time to update US defense export policies", 8/13/18, <https://www.defensenews.com/top-100/2018/08/09/its-time-to-update-us-defense-export-policies/>)

I recently stumbled upon an interesting article dated Oct. 1, 1999, by Loren Thompson with the Lexington Institute titled “Military Supremacy and How We Keep It.” In this article we are reminded of the February 1776 publication by British historian Edward Gibbon titled “The Decline and Fall of the Roman Empire.” We are told George Washington read this work and its subsequent volumes, and in his first annual message to Congress as president he made reference stating: “To be prepared for war is one of the most effectual means of preserving peace.” Or to quote Gibbon: “They preserved the peace by a constant preparation for war.” America’s defense and aerospace industry is the second-largest gross exporter and retains the largest positive trade balance of any manufactured goods sector. The sector employs approximately 2.8 million individuals within the United States. America’s largest defense companies secure on average 70 percent of their annual revenue from domestic defense spending, with the remaining 30 percent accomplished through international sales to allies and friends. With defense appropriations at historic highs, our defense and aerospace industries are well-positioned to equip our military, but headwinds are gathering. In the face of growing budget deficits, robust annual U.S. defense appropriations may turn out to be unsustainable. Additionally, trade disputes are causing the cost of raw materials to rise by at least 40 percent, which ultimately increases the cost of our military hardware and could potentially undermine the ability for U.S. manufacturers to compete in the global market. Taken one step further, it’s possible that trade disputes could result in our allies slowing or ending acquisitions of U.S. capability as a way to protest tariffs. See this year’s Top 100 list! Faced with these challenges, the U.S. defense industry is focused on increasing international sales. Companies seek 5 percent to 30 percent growth within five years, while a select few are seeking growth greater than 50 percent. The benefits of increased global market share include reduced need for domestic investment, reduced cost to the U.S. military, increased allied capability globally and greater innovation investments by U.S. industries, minimizing the ability of emerging competitors in the defense and aerospace sector to capture market share at American industries’ expense. The U.S. defense-industrial sector is primed for rapid and significant growth, but conventional export policies and lengthy determination processes may be undermining the future health of the companies that support America’s safety, security and economic vitality. To do so is to ultimately enable our enemies and their industries to grow, and with that growth to develop products that will, if not checked, defeat U.S. military capability. From aviation platforms to ammo, most allied and friendly nations around the world are unable to fully support their military forces with their own indigenous industries. Why? Because they are unable to financially sustain the breadth of industries needed to ensure military readiness, and because their industries were unable to compete effectively internationally to offset the limited domestic investment by their government. Is this where the United States intends to be tomorrow — a place where we are unable to equip our military without relying on friends, allies and not-so-friendly nations for capability and components? For a moment, let us consider our most worrisome competitors. They are nations that have their own military-industrial complexes, which are largely self-reliant. Some are well-established while others are rapidly emerging as credible innovators and suppliers. Their military industries are run as state-owned enterprises. U.S. industries are publicly held companies that — although receiving considerable U.S. government funding through the annual defense appropriations — are accountable to shareholders, investors and corporate boards, meaning they must be profitable or perish. Our enemies control and preserve their military-industrial complex with an iron fist, while ours must function like any other publicly traded business in the United States. In order to ensure our continued security and state of readiness, we must pursue ways for the U.S. government and our defense industries to partner more closely with a goal of achieving the following: a commitment through legislation, policy and procedures to reduce the regulatory burdens that adversely impact product costs and innovation investments; and a commitment by our government to reduce and remove barriers to successful competition in the global markets. For both domestic performance and global competition success, timeliness and cost are critical success factors often disrupted by excessive U.S. government control and intervention. Revisiting Cold War-era policies and procedures can help create a contemporary model for advancing global sales, which can ensure U.S. readiness, contribute to military-industrial independence and limit the reach of our adversaries’ influence. We must ensure through innovation and domestic production that we can regularly prepare for war to help preserve the peace without being reliant upon others.

#### When share prices go up, so does the defense industry

Loren Thompson, Deputy Director of the Security Studies Program at Georgetown University, Chief Operating Officer of Lexington Institute, “After Five Years Of Flat Revenues, Strategies Of Big Defense Companies Begin To Diverge”, National Interest, June 2016, https://nationalinterest.org/feature/after-five-years-flat-revenues-strategies-big-defense-16775

The U.S. defense industry is now in the sixth year of a downturn in domestic demand. Pentagon spending peaked in 2010 at nearly $700 billion, and then began falling as overseas wars wound down and the Budget Control Act capped military outlays. Industry's biggest challenge isn't so much the scale of military spending as its composition, which is heavily weighted towards personnel and readiness at the expense of modernization. In other words, Obama-era defense budgets are big on consumption, but neglect investment. The initial response of the biggest defense contractors was to adopt the standard litany of tactical measures that they always embrace when demand from their main customer softens. Divest under-performers. Acquire niche businesses to fill out the portfolio. Do more share buybacks to strengthen stock prices. Increase foreign sales. Grow commercial revenues. And, of course, cut costs through plant consolidations and layoffs. All of the Pentagon's top suppliers have taken at least some of these steps, and the results have been spectacular. How spectacular? Every one of the biggest defense companies has seen its share price rise by over 100% in the midst of a defense downturn. Earnings per share are way up, dividends are increased regularly, and operating margins are strong. This isn't the way downturns are supposed to go. A combination of investor-friendly financial moves and a favorable interest-rate environment has enabled the defense industry to weather the downturn quite nicely, if shareholder returns are any indication of success.

#### Any quick revenue cut makes the DIB unsustainable, gutting confidence

Pellerin 13 (Cheryl, American Forces Press Service, Budget Cuts Threaten Defense Industrial Base, Official Says, DOD News 3-4-13, <http://archive.defense.gov/news/newsarticle.aspx?id=119431>)

Large and sudden U.S. spending cuts and an unstable budget environment promise long-term damage to a critical segment of the defense industrial base, the Defense Department’s top maintenance official recently told a congressional panel. John Johns, deputy assistant secretary of defense for maintenance policy and programs, testified last week before the House Armed Services readiness subcommittee, along with officials from industry professional associations. The defense industrial base, or DIB, is the worldwide industrial complex whose companies perform research and development, design, production, delivery and maintenance of military weapons systems to meet U.S. defense requirements. A critical component of the DIB is the defense sustainment industrial base, whose companies support fielded military systems from procurement to supply-chain management, along with depot and field-level maintenance and equipment reuse and disposal. Normally, a mix of public and private sustainment capacity and capabilities are available to the services and play a crucial role in the department’s ability to respond to the nation’s security requirements. During the hearing, the panel sought to assess the viability of the defense sustainment industrial base and implications for military readiness given two major fiscal constraints: the nation’s budget crisis and many months of Defense Department funding through a continuing resolution that freezes fiscal year 2013 spending to fiscal 2012 levels. “The combined potential shortfalls and cuts are so large, we anticipate reductions, delays and cancellations in work orders within our public depots and shipyards, and on contracts with the private sector,” Johns told the lawmakers. Such actions will begin as early as this month, he added, and continue throughout the fiscal year. In response, Johns said, the military services will manage the existing funded workload, resource the highest-priority maintenance, and do what they can to mitigate harmful effects on readiness, sustainment industrial base capability and the workforce. Actions that can be reversed will receive priority, he explained, but “given the magnitude of the combined, concentrated reductions, even the most effective mitigation strategies will not be sufficient to protect the sustainment industrial base.” As a result, the department’s top maintainer said, third- and fourth-quarter inductions of equipment into depot repair lines will be canceled in many areas. For example, in the Navy, “70 percent of ship maintenance in private yards in the third and fourth quarter will be canceled,” he said. “That's 25 ship availabilities and potentially two carrier refuelings, and complex overhauls on the aviation side -- 320 airplanes, approximately 10 percent of the fleet and over 1,200 engines and modules.” This will result in readiness problems in four air wings, Johns added. There will be impacts in the industrial base in all three fleet-readiness centers and across the entire shipyard complex. “Very clearly,” the deputy assistant secretary said, “this level of impact is going to have an associated effect on assets available for the Navy to deploy worldwide. There's no doubt about that.” The continuing resolution is affecting the department’s ability to move money from one account to another, Johns said, adding that for the Army, the associated shortfalls in operations and maintenance accounts affect the entire depot and arsenal system, with impacts in multiple weapon system maintenance activities across the board. Army Chief of Staff Gen. Ray Odierno estimated recently that 50 percent of the impact to the Army is associated with the continuing resolution and 50 percent with the severe cuts required by sequestration, Johns added. If sequestration and funding by continuing resolution are allowed to continue, he observed, “gross financial and production inefficiencies will be generated, thousands of government temporary and term employees and contractor personnel will be impacted immediately, hundreds of small businesses and businesses with strong military-market dependency will be placed at risk, and the readiness of numerous major weapon systems and equipment and, in turn, each service's ability to satisfy future mission requirements, will be seriously degraded.” The damage may be so severe in some areas, he said, “that full recovery within our national industrial base, both public and private sectors, from just fiscal 2013 reductions could take up to a decade.” The end of the Iraq conflict in December 2011 and the drawdown of combat troops in Afghanistan by the end of 2014 may produce in some the expectation of a peace dividend, Johns said, but “given the full-spectrum [national security] threat we're facing, I'm not sure that we should actually be seeking one.” The department’s current fiscal situation is so drastic and is taking place over such a short period of time, he said, “the drawdown in the post-Cold War era was nowhere near the slope we're looking at in fiscal 2013.” The bottom line is that each service's ability to support surge and sustained operations will be seriously damaged, Johns told the panel. Protecting the DOD workforce will be a priority in each service and among companies in the DIB and defense sustainment industrial base, the deputy assistant secretary explained. This is critical “to ascertaining capabilities for us in the future in the industrial base … and protecting the critical skills that we would identify in [such an] analysis would be a centerpiece of our department-level strategy,” Johns said. “From a strategic perspective,” he added, “we would be looking at protection of highly complex work associated with highly complex equipment, work associated with software maintenance, critical safety items and materiel requiring true artisans.” Johns continued: “The workforce that we're talking about in both the public and private sectors are probably some of the most patriotic citizens that we have in the country.” Such workers have experienced the war “through the equipment they have had to refurbish that have bullet holes in them, that have [improvised explosive device] damage, battle damage, sand and dust damage. They know and have contributed significantly to the success of the war,” he said. A furlough is likely to “send a very strong signal to them of indiscriminate actions and lack of value associated with their contribution to national defense,” the deputy assistant secretary said. “It is not going to be viewed very well,” he added, “… and the uncertainty of future workload is not going to be a good signal to them.”

## UQ

### U—Rally Now

#### Defense Industry set for a rally now

Josh Enomoto, Investorplace Contributor, 9-18-2019, "10 Defense Stocks to Buy During Rising Geopolitical Tensions," InvestorPlace, <https://investorplace.com/2019/09/10-defense-stocks-to-buy-during-rising-geopolitical-tensions/>

Remarkably, the Trump administration has not yet started a war despite multiple geopolitical flash points. On top of the ongoing trade war with China, the U.S. must contend with a number of tense situations. Therefore, defense stocks are particularly relevant now. Initially, this may sound like a strange statement to make. After all, even the most bullish investors will concede that this market rally has overextended itself. Thus, we should welcome a correction to work out some of the excess optimism. Under this environment, the best stocks to buy feature protective elements, such as strong track records of dividend payouts. Obviously, defense stocks primarily take the term protection quite literally. But even though President Trump — who is typically aggressive with his word choice and blunt with his delivery — is uncharacteristically quiet about certain geopolitical situations, don’t mistake that for an immediately peaceful resolution. We have many problems that will require a big stick, and perhaps the capacity to wield it. For instance, the situation in Iran may soon reach a fever-pitch. Trump opted to hit the country with economic sanctions in response to Iran downing an American military drone. But in response, Iranian President Rouhani called the White House “[mentally handicapped](https://www.nytimes.com/2019/06/25/world/middleeast/iran-rouhani-us-sanctions.html).” Outraged, Trump threatened to obliterate parts of Iran if they attacked any more American assets. That is just begging for an uptick in defense stocks. Iran is just one of several geopolitical flashpoints. And behind each one looms Russia, supporting interests antithetical to our own. Again, this situation is begging for a defense-industry rally. Here are the 10 best stocks to buy in this sector:

### U--Stock Growth Now

#### Arms sales driving defense stock growth now – expected to continue

Zacks Equity Research 19 (“Outlook for Aerospace-Defense Stocks Remains Encouraging.” Zacks Equity Research, 1/11/19, <https://www.zacks.com/commentary/204098/outlook-for-aerospace-defense-stocks-remains-encouraging>)

With the United States being the largest supplier of defense equipment, it is undoubtedly a golden era for the nation’s aerospace and defense stocks. U.S. defense majors are expanding their foreign markets rapidly, particularly taking advantage of regional tensions prevailing in the Middle East lately. According to the latest report from Aerospace Industries Association (AIA), in 2017 the U.S. defense industry generated $20 billion worth of exports, which grew a solid 75% over the past decade. With no indication of the global geopolitical unrest coming to an end and emerging nations like Japan and India raising their defense budgets, this winning streak is expected to continue in the near term.

#### Defense Industry Investment is great now

Lemke, ‘19

(Tim, business reporter for several major publications, "Want to Invest in Defense Sectors? Here's What You Need to Know First," Balance, 6-25-2019, <https://www.thebalance.com/investor-s-guide-to-defense-stocks-in-2018-4172304>)

Defense contractors including Lockheed Martin, Northrop Grumman, and Raytheon have routinely been some of the strongest performers in the stock market, with revenues in the billions and strong returns for investors. The United States is expected to spend more than $700 billion on defense in 2018 and in 2019. A good chunk of that will go to major defense firms. These companies will also earn revenues from other government agencies and from international allies. For the most part, defense stocks have provided consistently strong returns for investors. In many ways, the financial health of these companies is tied to the level of government defense spending, but these firms have also diversified revenue streams that allow them to report strong earnings regardless of what the U.S. decides to spend on defense.

### U--Investors Shifting to Stocks Now

#### Investors are shifting to defense stocks now---key to overall market health.

Al Root 19. Senior Special Writer for Barrons. 5-6-2019. “Defense Stocks Like Lockheed Martin Offer a Haven When the Dow Drops.” Barrons. https://www.barrons.com/articles/defense-stocks-lockheed-martin-haven-dow-51557162289.

Companies deriving a majority of revenue from defense contracts were off 0.2% Monday afternoon. Often times, the defense sector is uncorrelated with the broader stock market. Defense contractor sales are dependent on conflict and government budgets. They are less dependent on the state of the global economy. That can be a good thing for investors looking for a haven from global macroeconomic fears. The back story: Defense stocks have been solid performers over recent history because of growing U.S. defense budgets as well as continuing global conflict. Shares of defense primes—the so-called largest U.S. defense contractors—have returned 17% a year on average over the past 5 years, better than the 13% return of the Dow Jones Industrial Average. What’s more, the defense primes trade for 16.3 times estimated 2019 earning, in line with historical averages. The defense primes are generally taken to be: Boeing (ticker: BA), Lockheed Martin (LMT), General Dynamics (GD), Northrop Grumman (NOC), Raytheon (RTN) and L3 Technologies (LLL). Barron’s excludes Boeing from defense-only calculations because it derives more of its sales from commercial aerospace. What’s new: The move into the Middle East with more fire power has the potential to escalate tensions there. For defense stocks, the aggressive move could also mean more funding for overseas contingency operations, or OCO. OCO spending is a supplement defense dollars dependent on the level of global conflict. According to the Congressional Budget Office, since 2001, the Department of Defense has received large appropriations to augment the base defense budget totaling about $2.2 trillion, or 20% of total defense appropriations over that span. Military spending is forecast by Wall Street analysts to rise in 2019—a positive for defense stocks. Additional Middle East operations should add to the amount of money the government will allocate to defense contractors. Looking ahead: As trade-war fears heat up, defense could become a haven for industrial investors looking to shift exposure away from China. The defense prime contractors traded at a 30% premium to the Dow Jones Industrial Average early in 2018. The defense premium to the overall market is a measure investors can use for two purposes: as a fear gauge as the trade conflict reemerges, and to determine how much safety the defense sector can offer investors. At valuation parity, the defense space looks like a good bet, but at a premium valuation multiple even the solid defense space might not offer investors much additional safety for their capital.

### U—DIB Up but Fragile

#### US DIB is ahead now but fragile

Jerry Hendrix & Robert C. O’Brien, 7-26-2017, (Hendrix, a retired U.S. Navy captain and award-winning naval historian-strategist, is a naval expert at the Center for a New American Security. O’Brien is partner at Larson O’Brien LLP, served as a national security advisor to Scott Walker, Mitt Romney, and Ted Cruz during their presidential campaigns) "Trump Acts To Revitalize America’s Defense Industrial Base," Breaking Defense, https://breakingdefense.com/2017/07/trump-acts-to-revitalize-americas-defense-industrial-base/

That he chose to sign the executive order on the USS Gerald Ford aircraft carrier Friday carries real symbolism. Only America has the capacity to build a super carrier. The Russians want such ships but cannot construct them and even the Chinese, with all of their recently-acquired shipbuilding prowess, are years away from replicating the Ford-class carriers that will soon enter America’s fleet. But this technological and manufacturing edge can no longer be taken for granted as the nation’s DIB becomes increasingly fragile.

### U-Sales Up Now

#### Arms sales are up now and continued growth is key

Mehta, 18 [Aaron, Deputy Editor and Senior Pentagon Correspondent for Defense News, covering policy, strategy and acquisition at the highest levels of the Department of Defense and its international partners, “The US brought in $192.3 billion from weapon sales last year, up 13 percent,” <https://www.defensenews.com/industry/2018/11/08/the-us-brought-in-1923-billion-from-weapon-sales-last-year-up-13-percent/>

Combined weapon sales from American companies for fiscal 2018 were up 13 percent over fiscal 2017 figures, netting American firms $192.3 billion, according to new numbers released Thursday by the State Department. The department previously announced that FY18 brought in $55.66 billion in foreign military sales, an uptick of 33 percent over FY17’s $41.93 billion. Through the Foreign Military Sales process, the U.S. government serves as a go-between for foreign partners and American industry. What had not been released until now is the total direct commercial sales, the process through which foreign customers can directly buy systems from industry. Those figures topped $136.6 billion for FY18, a 6.6 percent increase from FY17’s $128.1 billion. The Trump administration has made selling American defense goods abroad a key plank of its governance plan, under the guiding principal that “economic security is national security.” Earlier this year, the department rolled out its new Conventional Arms Transfer policy, or CAT, as well as new guidance for selling unmanned systems, with the explicit goal of increasing arms sales. However, tying this year’s figures to the CAT changes may be a stretch. Sales can fluctuate year by year because of the size of certain weapons packages; a pair of large Saudi Arabian purchases in 2012 famously set that year up for a massive $287 billion annual total. And there has already been steady growth each of the last three years, even before the Trump administration’s reforms kicked in, with $148.6 billion in total sales in FY16; $170 billion in FY17; and $192.2 billion in FY18. A State Department official, speaking on background ahead of the official release of these figures, acknowledged to Defense News that these figures can’t be tied directly to changes in policy, noting they represent a “dynamic picture” and that the department is aware there are some factors “we do not control.” Still, the official expressed confidence that as the CAT policy is enacted, it will lead to a natural growth in sales. How much, however, is hard to nail down. “I don’t want to speculate on a particular goal that we’re looking at” for FY19, the official said. “We think a 13 percent increase is a significant increase year over year. We’d like to maintain that pace, but there are other factors that go into a given set of annual numbers, so I’m hesitant to give a target goal.”

## Link

### L-Gen. Restrictions

#### Even small restrictions sap investor confidence in the defense industry – plunging profits

Atsushi Tago is Associate Professor of International Relations at Graduate School of Law, Kobe University and Gerald Schneider is Professor of International Politics at the University of Konstanz, Germany, “The Political Economy of Arms Export Restrictions: The Case of Japan”, Japanese Journal of Political Science, Sept 2012, https://www.researchgate.net/publication/233780864\_The\_Political\_Economy\_of\_Arms\_Export\_Restrictions\_The\_Case\_of\_Japan

6. Conclusion This article provides additional empirical evidence to support the existing argument which connects political decision-making processes to the ups and downs the political economy of arms export restrictions of the defense industry on the stock market (e.g. Schneider and Troeger, 2006; Bechtel and Schneider, 2010). While previous studies suggested that a change of political leadership in Japan did not affect financial markets (Ling and Wang, 2007), this Q1 article shows that markets are nevertheless influenced by political announcements and decisions which directly affect the ordering book of the industry. The analysis particularly shows that mainly surprising news in the form of leaks that lead to increases in the return of armament producers. However, investors carefully consider whether a producer will really be ready for conquering foreign markets once the anticipated policy changes become effective. The defense sector did not only react to positive news. The announcement by Defense Minister Ohno in January 2000 that the policy would not be relaxed was unsurprisingly met by a negative market reaction. The analysis suggests more generally that financial market reactions allow us to measure the redistributive effects of real and of attempted policy reforms. The failure of many studies to obtain clear evidence in favor of the thesis that some investors profit from increased tensions in the international scene is mostly due to the high level of temporal aggregation in which these studies are conducted. The analysis suggests that security policy measures have economically modest but politically salient economic repercussions also for a still largely pacifist society like the Japanese one. Finally, econometric analyses of financial markets increase the transparency of the political and economic decision-making process. The demonstration of how much investors into the armaments industry profit from individual political decisions making helps to qualify a discussion which frequently fluctuates between demonization and extenuation.

#### Restrictions crush competitiveness – collapses the economy

Keith Webster is the president of the Defense and Aerospace Export Council and the vice president of the U.S. Chamber of Commerce., “It’s time to update US defense export policies”, Aug 13th 2018, https://www.defensenews.com/top-100/2018/08/09/its-time-to-update-us-defense-export-policies/

America’s defense and aerospace industry is the second-largest gross exporter and retains the largest positive trade balance of any manufactured goods sector. The sector employs approximately 2.8 million individuals within the United States. America’s largest defense companies secure on average 70 percent of their annual revenue from domestic defense spending, with the remaining 30 percent accomplished through international sales to allies and friends. With defense appropriations at historic highs, our defense and aerospace industries are well-positioned to equip our military, but headwinds are gathering. In the face of growing budget deficits, robust annual U.S. defense appropriations may turn out to be unsustainable. Additionally, trade disputes are causing the cost of raw materials to rise by at least 40 percent, which ultimately increases the cost of our military hardware and could potentially undermine the ability for U.S. manufacturers to compete in the global market. Taken one step further, it’s possible that trade disputes could result in our allies slowing or ending acquisitions of U.S. capability as a way to protest tariffs. Faced with these challenges, the U.S. defense industry is focused on increasing international sales. Companies seek 5 percent to 30 percent growth within five years, while a select few are seeking growth greater than 50 percent. The benefits of increased global market share include reduced need for domestic investment, reduced cost to the U.S. military, increased allied capability globally and greater innovation investments by U.S. industries, minimizing the ability of emerging competitors in the defense and aerospace sector to capture market share at American industries’ expense. The U.S. defense-industrial sector is primed for rapid and significant growth, but conventional export policies and lengthy determination processes may be undermining the future health of the companies that support America’s safety, security and economic vitality. To do so is to ultimately enable our enemies and their industries to grow, and with that growth to develop products that will, if not checked, defeat U.S. military capability. From aviation platforms to ammo, most allied and friendly nations around the world are unable to fully support their military forces with their own indigenous industries. Why? Because they are unable to financially sustain the breadth of industries needed to ensure military readiness, and because their industries were unable to compete effectively internationally to offset the limited domestic investment by their government. Is this where the United States intends to be tomorrow — a place where we are unable to equip our military without relying on friends, allies and not-so-friendly nations for capability and components? For a moment, let us consider our most worrisome competitors. They are nations that have their own military-industrial complexes, which are largely self-reliant. Some are well-established while others are rapidly emerging as credible innovators and suppliers. Their military industries are run as state-owned enterprises. U.S. industries are publicly held companies that — although receiving considerable U.S. government funding through the annual defense appropriations — are accountable to shareholders, investors and corporate boards, meaning they must be profitable or perish. Our enemies control and preserve their military-industrial complex with an iron fist, while ours must function like any other publicly traded business in the United States. In order to ensure our continued security and state of readiness, we must pursue ways for the U.S. government and our defense industries to partner more closely with a goal of achieving the following: a commitment through legislation, policy and procedures to reduce the regulatory burdens that adversely impact product costs and innovation investments; and a commitment by our government to reduce and remove barriers to successful competition in the global markets. For both domestic performance and global competition success, timeliness and cost are critical success factors often disrupted by excessive U.S. government control and intervention.

### L—Drones

#### The growth of drones sales key to defense stocks

Josh Enomoto, Investorplace Contributor, 9-18-2019, "10 Defense Stocks to Buy During Rising Geopolitical Tensions," InvestorPlace, <https://investorplace.com/2019/09/10-defense-stocks-to-buy-during-rising-geopolitical-tensions/>

Iran’s downing of an American military drone — with conflicting reports about where it happened — may well go down as the catalyst for a new Middle Eastern conflict. But in the future, this embarrassing incident may become a relic of a bygone era. That’s because companies like Kratos Defense & Security Solutions (NASDAQ:[KTOS](https://investorplace.com/stock-quotes/ktos-stock-quote/)) are developing the next wave of advanced drones. Unlike prior iterations, these drones will carry offensive payloads: in other words, they have the ability to punch back, deterring any shenanigans. What will drive KTOS stock higher is the company’s [XQ-58 Valkyrie](https://www.militaryfactory.com/aircraft/detail.asp?aircraft_id=1755). Small and nimble, the Valkyrie can carry a 550-pound payload. Better yet, they’re designed with economy in mind. Therefore, these drones can achieve air superiority with minimal cost and no loss of life (for our service members).

### L—Missiles

#### Investors are flocking to Defense stocks because of missiles now

Garrett Baldwin, 10-8-2019, "Our Top Defense Stock to Buy amid Tensions with China," Money Morning - We Make Investing Profitable, <https://moneymorning.com/2019/10/08/our-top-defense-stock-to-buy-amid-tensions-with-china/>

You want to own stocks that can provide income and share price appreciation. You'll also want to tap into America's booming defense industry. With hypersonic missiles now emerging at a time of rising geopolitical tensions, you only need to own one [defense stock](https://moneymorning.com/tag/defense-stocks/). This one will protect your nest egg and profit from booming Pentagon demand. But before we get to that pick, let's show you how we discovered this stock – and why it's poised to break out in the coming months… Think Quantitatively When people think about [defense stocks](https://moneymorning.com/tag/defense-stocks/), they might go out and purchase the first name they associate with ships, fighter jets, or military spending. This is a qualitative approach, one where investors tell a story in their mind and then use numbers to justify the story. In reality, you want to use a quantitative approach first. You need to bring all investments down to one number. You need a number that tells you when to buy a stock, when to sell a stock, and when to hold the stock. Once you have arrived at that number, you can then use qualitative research to determine if the thesis to own the stock aligns with fundamentals.

### L – Saudi

#### Sales to Saudi Arabia Raise Defense Stocks

Aparajita Dutta, 9-19-2019, "Defense Stocks Set to Gain After Strike on Saudi Oil Facility," Zacks Investment Research, https://www.zacks.com/stock/news/526048/defense-stocks-set-to-gain-after-strike-on-saudi-oil-facility

The situation has once again increased the need for Saudi Arabia to strengthen its air defense missile systems. This is good news for defense majors as Saudi Arabia is the largest buyer of U.S. weaponries. According to the Stockholm International Peace Research Institute, Saudi Arabia accounted for 18% of U.S. arms sales in the past five years, totaling around $9 billion. The latest attack can lead Saudi Arabia to strike fresh weapons delivery deals with U.S. defense primes. Now, it is imperative to mention that the U.S. administration is waiting for Riyadh to determine who launched the strikes. It goes without saying that if Iran is found to be responsible for the strike, it would once again escalate tensions between the United States and Iran. In fact, the relation between these two nations soured after Trump implemented sanctions against Iran, targeting the Islamic Republic’s currency and key industries in August 2018. Moreover, this June, Trump came close to launching military strikes against Iran after it shot down a U.S. drone. Meanwhile, even if Iran is not found guilty, Saudi Arabia is expected to boost its arsenal anyway as Houthi rebels have threatened to continue attacks on Saudis. U.S. defense stocks are therefore set to benefit, given the current geopolitical situation in Saudi Arabia.

#### Breaking contracts with Saudi Arabia causes a market freak-out AND collapse BUT defense stocks are holding things together.

Bruno 18 (Alessandro, MA, Alessandro holds a BA and MA in International Relations all at the University of Toronto. Alessandro has been published extensively and is a frequent guest on television news programs including the BBC, CBC, and CTV. Alessandro has worked as an industry analyst, lived and worked abroad extensively, and served as a United Nations officer in North Africa. Alessandro was also an analyst in the global investment banking sector for a leading international advisory group responsible for putting sustainability and corporate responsibility on the finance map; specializing in aerospace, transportation, energy, and mining sectors, “These Factors Suggest a Major Stock Market Crash Is Due,” pg online @ https://www.lombardiletter.com/investors-sell-defense-stock-market-crash/30964)

Many young Americans—anyone who has recently started or even finished college in the United States—can’t even remember when a stock market crash affected them (directly, anyway). That’s because the last major crash technically started in late 2007 and ended in June 2009. In 2019, it will have been a decade of constant economic expansion. While history often fails, it does point to a staggering statistic. In the period from 1900 to the present, the United States has experienced at least one major market crash every 10 years. Therefore, in historical terms, a major stock market crash is due. What history has gotten right is that there has never been such a thing as an ever-expanding economy. That kind of phenomenon doesn’t even exist in the fantasies of the most bullish economists. Rather, for every period of growth, there exists a (usually shorter) period of decline. This decline is marked by a drop in the gross domestic product (GDP) and socio-economic hardship due to lower production, lower demand for goods and services, and higher unemployment. Not surprisingly, the lower corporate earnings also put pressure on the value of stocks. In the present case, the trigger of the next stock market crash could be too much debt and higher interest rates. These Will Burst the Current Speculative Bubble Academics and pundits have not identified a guaranteed way to determine the precise moment when a recession-causing stock market crash begins. However, it doesn’t take a Nobel Prize-winning genius to figure out that Wall Street is on shaky grounds now. That may startle many, including myself. It seems illogical to expect doom and gloom when the indicators for the U.S. economy point to a solid and bullish trend. In the past, the current type of market, bullish though it may seem, has often served as a catalyst for a major type of crash, correction, and recession. And what type of market is that? It’s one characterized by rising rates, high levels of government and private debt, and exuberant stock valuations. In the background, a trade war is brewing amid global political instability. The Tax Cut Effect Has an Expiry Date The tax cuts worked in 2018. But their buoyant effect will end in 2019. The other mark of a coming storm in the financial markets is unusual behavior. And investors have shown decidedly odd behavior when it comes to the defense sector. The defense sector has reported outstanding quarterly results. Yet, rather than being celebrated with a rally, these generally unassailable companies have been among the top losers in the recent stock market crash. Before examining some of the odd moves the market has made in the last days of October 2018, there are plenty of reasons to expect a major stock market crash and a recession. Indeed, investors have ignored the likes of Lockheed Martin Corporation (NYSE:LMT), Boeing Co (NYSE:BA), or Raytheon Company (NYSE:RTN), which posted bullish earnings on all fronts (including guidance). This suggests that investors are either confused or vulnerable to increasing volatility. I think they’re a quite a bit of both, which means that investors are starting to fear a stock market crash. The Defense Sector Can Serve as a Gauge of Investor Sentiment The current drops—Lockheed Martin lost over six percent in a single session after posting a record third quarter, beating both earnings and revenue expectations—can only have one culprit: the midterm elections. After episodes involving the gruesome assassination of a prominent journalist at the Saudi Consulate in Istanbul; the mail bomber Cesar Sayoc Jr., who targeted leading Democrats; and another mass shooting, there is a sense the Democrats could win one or even both Houses of Congress. Most governments suspect, even if behind closed doors, that the main suspect for the Saudi Consulate murder is Saudi Crown Prince and de-facto ruler, Mohammad bin Salman, aka MBS. He happens to have toured Lockheed Martin Corporation in 2017 and signed a memorandum of understanding (MOU) to buy some $100.0 billion worth of armaments from the U.S.—most of which come from Lockheed Martin—with options up to $350.0 billion. Defense Spending Is All That’s Left of Bipartisan Politics in Washington Without Republican backing, according to this logic, defense spending would suffer. Investors, therefore, fear that Democrat majorities would suppress defense-sector margins and scrap contracts domestically and internationally (especially with Saudi Arabia, the world’s top weapon importer). The implication is that Democrats are somehow bad for defense spending. That implication is wrong. Perhaps Democrats are only slightly less inclined toward spending on weapons than Republicans. Yet, it was President Barack Obama who caused relations with Russia to deteriorate to Cold War levels. And it was also under Obama that the Middle East blew up and China started to flex its muscle in its neighborhood. But neither the U.S. government (regardless of political affiliation) nor its allies is going to surrender defense spending in the stormy Cold War environment. Defense Sales Will Continue As for Saudi Arabia, many governments have toyed with the idea of halting defense sales to the Saudis. Still, if something is to be done about Saudi Arabia, the U.S. and its allies will exercise the right amount of pressure to replace the current de-facto ruler with a more amenable one. Or at least one who won’t send hit squads to Saudi consulates. In the worst-case scenario, Congress would ban weapon sales to Saudis (which is what Germany has announced). The U.S. government would only do so after finding new markets for those same contracts.

#### Saudi arms sales are key to defense industrial base --- Saudi Arabia is a critical export market

Ghoshal 10/15/15 --- Debalina, Research Associate, Delhi Policy Group, “The softening of Saudi Arabia towards the Iranian nuclear deal would yield positive results in US-Saudi relations” http://www.turkishweekly.net/2015/10/15/op-ed/the-softening-of-saudi-arabia-towards-the-iranian-nuclear-deal-would-yield-positive-results-in-us-saudi-relations/

Of course, while the Saudi Arabians might have mellowed down when it comes to the nuclear deal, this does not necessarily mean that they are attempting to improve relations with Iran. Saudi Arabia’s Foreign Minister Adel al Jubeir was quoted as saying that because the nuclear deal assures that Iran would not have easy access to nuclear weapons, it would enable Saudi Arabia to focus more intensely on Iran’s “nefarious” activities in the region. Further, he believes that the deal will “contribute to security and stability”[3] in the region. This softening of the Saudis towards the nuclear deal can only be a step forward on the path to renewing relations between Riyadh and Washington. This relation has been soured not only by the Iranian nuclear deal, but also by the U.S.’s foreign policy on matters pertaining to the Syrian crisis and the fledgling democratic trajectories ofTunisia and Egypt as well as the inability of the U.S. to check Iranian influence in Iraq. Renewed Saudi-U.S. relations would bear positive results. Just like Iran, Saudi Arabia has joined the United States in its fight against the Islamic State of Iraq and the Levant (ISIL). Moreover, any discontent with the U.S. on the part of the Saudis could cost the former an important defence export market as Saudi Arabia is one of the leading importers of U.S. weapons. Moreover, the Saudis also know that the nuclear deal is going to be passed by U.S. Congress. Hence, the only solution is to join hands with the U.S. to ensure that the verification mechanisms outlined in the agreement are in place. Also, for the U.S., gaining the Saudi’s confidence is necessary if it is to deploy a regional Terminal High Altitude Air Defence (THAAD) system in the GCC countries successfully. Estranged relations with Saudi Arabia could make this effort to deploy a joint missile defence system a difficult task.

### L-Taiwan

#### Arm sales to Taiwan increase defense stock growth across the industry

Aparajita Dutta, 07-10-2019, "US Ok's $2.2B Arms Sales to Taiwan: 3 Defense Stocks in Focus," MSN, https://www.msn.com/en-us/money/topstocks/us-oks-dollar22b-arms-sales-to-taiwan-3-defense-stocks-in-focus/ar-AAE7ZUe

Investors putting money into U.S. defense stocks cheered the news of the U.S. State Department’s approval of a potential arms sale worth $2.2 billion to Taiwan on Jul 8. As expected, the U.S. Aerospace-Defense industry’s major indices like the S&P 500 Aerospace & Defense (Industry) and the Dow Jones U.S. Aerospace & Defense index inched up 0.4% on Jul 9 following this announcement. While the deal bears good news for U.S. defense contractors, it faced criticism from China, which considers Taiwan as a deranged province. The approval comes at a sensitive time with Washington and Beijing resuming trade talks. It may hamper possible trade negotiations. Details of the Deal According to the Defense Security Cooperation Agency (DSCA), the deal includes 108 M1A2T Abrams tanks, about 250 Stinger missiles, four Stinger Fly-to-Buy missiles, along with related equipment and support. DSCA said the possible arms sale might also include mounted machine guns, ammunition, Hercules armored vehicles for recovering inoperative tanks, heavy equipment transporters and related support. Per DSCA, the proposed tank sale should contribute to the modernization of Taiwan’s main battle tank fleet, boosting its ability to counter current and future regional threats, thereby strengthening its homeland defense. These tanks are expected to aid Taiwan’s goal of upgrading its military capability. The missile sales are believed to support U.S. foreign policy and national security strategy by improving the security and defensive capability of Taiwan. U.S.-Taiwan Relations America and Taiwan enjoy a robust unofficial military relationship, with the United States being the primary arms supplier to the latter. The two nations share a long-time combat relationship, with the first weapon transfer of 48 F-5E jets dating back to as early as 1979. In particular, this relationship has strengthened over the last decade, with Taiwan significantly boosting its defense investment in the face of increasing pressure from China. Of the numerous military deals struck between America and Taiwan in the last decade, the $6.5 billion-arms deal involving 30 Boeing BA Apache attack helicopters, 330 Patriot missiles and 32 Harpoon submarine-launched missiles in 2008 is worth mentioning. Stocks to Gain Here we discuss three companies, which are expected to benefit from the approval of the $2.2 billion arms sales deal. These stocks also have a solid long-term growth rate that makes us confident of their future earnings. General Dynamics’ GD Abrams M1A2 is the advanced version of the M1A1 battle tank and is equipped with an improved fire control system. It continues to be the top tank choice for the U.S. Army, National Guard and Marine Corps as well as several U.S. allies. The company boasts a solid long-term earnings growth rate of 8.9%. Raytheon’s RTN Stinger missile maintains a greater than 90% success rate in reliability and training tests against advanced threat targets. This weapon can be rapidly deployed by ground troops as well as Apache helicopters for air-to-air engagements. The company boasts a solid long-term earnings growth rate of 11.3%. BAE Systems Plc BAESY Hercules vehicle offers lowest acquisition, operational and maintenance cost of any 70-ton capable recovery system. It was the primary 70-ton recovery system during Operation Iraqi Freedom The company boasts a solid long-term earnings growth rate of 4%.

### L-Ukraine

#### Javelin sales to Ukraine will increase defense stock growth across the industry

Zacks Equity Research, 10-9-2019, "The Zacks Analyst Blog Highlights: Raytheon, Boeing, Lockheed Martin and Northrop Grumman," No Publication, <https://finance.yahoo.com/news/zacks-analyst-blog-highlights-raytheon-124612431.html>

U.S. to Sell 150 Javelin Missiles to Ukraine: Stocks in Focus Per major media sources, Raytheon Company has clinched a contract worth $39.2 million from the U.S. State Department for the sale of additional Javelin anti-tank weapons to Ukraine. Specifically, the agreement includes sale of 150 anti-tank missiles and two additional missile launchers. With Ukraine and Russia on loggerheads for long, analysts are skeptical that this might enrage the latter, which, in turn, may retaliate against the United States. This should keep investors optimistic about defense stocks’ growth. Prospects of US Defense Stocks A consistent fight between Moscow-backed separatists and Ukraine’s pro-Western government has pitted Russia and Ukraine against each other over the past few years. Particularly, Ukraine has been bolstering its combat capabilities since Russia annexed Crimea in 2014 and backed forces in eastern Ukraine. The defense-friendly Trump administration has extended military aid to Ukraine. Notably, the U.S. government in 2017 approved lethal arms sales to Ukraine, something that the Obama administration had never done. In 2018, the United States sold over 200 missiles and 37 launchers package, worth $47 million to Ukraine. With Javelin being the U.S. Army and Marine Corps’ premier anti-tank weapon, the latest buy will allow Ukraine to keep Russia at bay and build its long-term defense capacity to defend its sovereignty and territorial integrity. Moreover, in May 2018, the Congress approved military assistance worth $250 million to Ukraine in 2019, including lethal weaponry. But this sale deed has not yet seen the light of day as President Trump asked his national security team to review the funding program to ensure the money is being used in the best interest of the United States, as stated by a U.S. official to Politico. Notably, Ukraine’s president declared in September that the United States will extend a $140 million worth military aid, in addition to the $250 million aid approved by the Congress. However, there has been no confirmation from any U.S. official regarding this claim by Ukraine’s president. Considering the aforementioned developments, if these military aids are actually extended, U.S. defense contractors would benefit immensely. Although there is no confirmation of that happening anytime soon, the latest sale of Javelin seems to have again opened the doors for weapon sales from the United States to Ukraine. Stocks in Focus The recent development should bolster investors’ confidence in the following U.S. missile makers, including Raytheon, as the adoption of missiles is more common in cross-border clashes. The Boeing Company: This renowned jet maker also manufactures missile defense systems like Ground-Based Midcourse Defense and a family of Laser & Electro-Optical Systems. It also produces Missile Seeker for PAC-3 missiles. Raytheon Company: It is a prominent missile maker in the United States. It manufactures notable missiles like Patriot, ESSM, the AMRAAM air-to-air missile and many more. Lockheed Martin Corp: This military jet maker manufactures some of the prominent missile defense systems of the United States like THAAD missile, PAC-3 MSE, Aegis Combat System, MEADS and a few more. Northrop Grumman Corp: Key programs of this global security provider include U.S. Navy’s Advanced Anti-Radiation Guided Missile (AARGM). It also leads a joint project that produces and maintains Minuteman III nuclear intercontinental ballistic missiles for the United States.

### Link Booster – Uncertainty/Perception

#### Even small cuts create uncertainty- that undermines R&D and overall DIB

DOD September 2018, (Department of Defense, Office of the Under Secretary of Defense for Acquisition and Sustainment Office of the Deputy Assistant Secretary of Defense for Industrial Policy) Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, https://media.defense.gov/2018/Oct/05/2002048904/-1/-1/1/ASSESSING-AND-STRENGTHENING-THE-MANUFACTURING-AND%20DEFENSE-INDUSTRIAL-BASE-AND-SUPPLY-CHAIN-RESILIENCY.PDF

At the macroeconomic level, defense spending uncertainty makes predicting the overall market size difficult, impeding forecasting across every tier in the supply chain. Uncertainty in spending inhibits investment in capabilities even where the overall sector market size is increasing, impacting defense suppliers and leading to revenue fluctuation, capital investment shortfalls, and suboptimal investment in R&D. Over time, spending instability also creates peaks of surge and valleys of drought – a pernicious, ambiguous pattern in which suppliers who build for scale production are left with excess capacity when programs end, creating long-term market distortion.

#### Sudden revenue cuts send a signal of uncertainty which guts the DIB

Pellerin 13 (Cheryl, American Forces Press Service, Budget Cuts Threaten Defense Industrial Base, Official Says, DOD News 3-4-13, <http://archive.defense.gov/news/newsarticle.aspx?id=119431>)

Large and sudden U.S. spending cuts and an unstable budget environment promise long-term damage to a critical segment of the defense industrial base, the Defense Department’s top maintenance official recently told a congressional panel. John Johns, deputy assistant secretary of defense for maintenance policy and programs, testified last week before the House Armed Services readiness subcommittee, along with officials from industry professional associations. The defense industrial base, or DIB, is the worldwide industrial complex whose companies perform research and development, design, production, delivery and maintenance of military weapons systems to meet U.S. defense requirements. A critical component of the DIB is the defense sustainment industrial base, whose companies support fielded military systems from procurement to supply-chain management, along with depot and field-level maintenance and equipment reuse and disposal. Normally, a mix of public and private sustainment capacity and capabilities are available to the services and play a crucial role in the department’s ability to respond to the nation’s security requirements. During the hearing, the panel sought to assess the viability of the defense sustainment industrial base and implications for military readiness given two major fiscal constraints: the nation’s budget crisis and many months of Defense Department funding through a continuing resolution that freezes fiscal year 2013 spending to fiscal 2012 levels. “The combined potential shortfalls and cuts are so large, we anticipate reductions, delays and cancellations in work orders within our public depots and shipyards, and on contracts with the private sector,” Johns told the lawmakers. Such actions will begin as early as this month, he added, and continue throughout the fiscal year. In response, Johns said, the military services will manage the existing funded workload, resource the highest-priority maintenance, and do what they can to mitigate harmful effects on readiness, sustainment industrial base capability and the workforce. Actions that can be reversed will receive priority, he explained, but “given the magnitude of the combined, concentrated reductions, even the most effective mitigation strategies will not be sufficient to protect the sustainment industrial base.” As a result, the department’s top maintainer said, third- and fourth-quarter inductions of equipment into depot repair lines will be canceled in many areas. For example, in the Navy, “70 percent of ship maintenance in private yards in the third and fourth quarter will be canceled,” he said. “That's 25 ship availabilities and potentially two carrier refuelings, and complex overhauls on the aviation side -- 320 airplanes, approximately 10 percent of the fleet and over 1,200 engines and modules.” This will result in readiness problems in four air wings, Johns added. There will be impacts in the industrial base in all three fleet-readiness centers and across the entire shipyard complex. “Very clearly,” the deputy assistant secretary said, “this level of impact is going to have an associated effect on assets available for the Navy to deploy worldwide. There's no doubt about that.” The continuing resolution is affecting the department’s ability to move money from one account to another, Johns said, adding that for the Army, the associated shortfalls in operations and maintenance accounts affect the entire depot and arsenal system, with impacts in multiple weapon system maintenance activities across the board. Army Chief of Staff Gen. Ray Odierno estimated recently that 50 percent of the impact to the Army is associated with the continuing resolution and 50 percent with the severe cuts required by sequestration, Johns added. If sequestration and funding by continuing resolution are allowed to continue, he observed, “gross financial and production inefficiencies will be generated, thousands of government temporary and term employees and contractor personnel will be impacted immediately, hundreds of small businesses and businesses with strong military-market dependency will be placed at risk, and the readiness of numerous major weapon systems and equipment and, in turn, each service's ability to satisfy future mission requirements, will be seriously degraded.” The damage may be so severe in some areas, he said, “that full recovery within our national industrial base, both public and private sectors, from just fiscal 2013 reductions could take up to a decade.” The end of the Iraq conflict in December 2011 and the drawdown of combat troops in Afghanistan by the end of 2014 may produce in some the expectation of a peace dividend, Johns said, but “given the full-spectrum [national security] threat we're facing, I'm not sure that we should actually be seeking one.” The department’s current fiscal situation is so drastic and is taking place over such a short period of time, he said, “the drawdown in the post-Cold War era was nowhere near the slope we're looking at in fiscal 2013.” The bottom line is that each service's ability to support surge and sustained operations will be seriously damaged, Johns told the panel. Protecting the DOD workforce will be a priority in each service and among companies in the DIB and defense sustainment industrial base, the deputy assistant secretary explained. This is critical “to ascertaining capabilities for us in the future in the industrial base … and protecting the critical skills that we would identify in [such an] analysis would be a centerpiece of our department-level strategy,” Johns said. “From a strategic perspective,” he added, “we would be looking at protection of highly complex work associated with highly complex equipment, work associated with software maintenance, critical safety items and materiel requiring true artisans.” Johns continued: “The workforce that we're talking about in both the public and private sectors are probably some of the most patriotic citizens that we have in the country.” Such workers have experienced the war “through the equipment they have had to refurbish that have bullet holes in them, that have [improvised explosive device] damage, battle damage, sand and dust damage. They know and have contributed significantly to the success of the war,” he said. A furlough is likely to “send a very strong signal to them of indiscriminate actions and lack of value associated with their contribution to national defense,” the deputy assistant secretary said. “It is not going to be viewed very well,” he added, “… and the uncertainty of future workload is not going to be a good signal to them.”

#### Perception is key – the plan creates fear of what will be lost next – snowballs and crushes industry planning

AIAA 11 ( Aerospace Industries Association of America, “The Case for a Defense Industrial Strategy” <http://www.aia-aerospace.org/assets/industrial-print.pdf>)

When faced with tough choices and declining budgets in the 1990s, DoD’s senior leadership made a conscious, considered decision to de-emphasize acquisitions and elevate other priorities (readiness, personnel, science and technology). It was a reasonable choice in light of the fact that after the procurement build-up of the 1980s, most of the U.S. weapons inventory was new and best-in-class while America’s major global adversary had just disintegrated. Twenty years later, America’s major global competitor is aggressively modernizing its military while key parts of our weapons inventory are reaching the end of their service life, are worn out by a decade of war, and are losing their margin of technological superiority. Given these dramatically different circumstances today, the prudent choice is to elevate procurement as the top defense budget priority. Otherwise, further reductions will cause more erosion of industry’s research, development and production capacity and U.S. troops will be forced to make do with ageing weapons and equipment that, in some cases, may no longer be superior to those fielded by their potential adversaries. Given the recent showdown over the debt ceiling, industry leaders are contemplating how many more programs might be cancelled, stretched out, or cancelled to fit a budget cap imposed at the end of a chaotic and politically charged process. In the absence of a clear strategy and productive partnership, industry will struggle to maintain its current production capacity, much less develop the capabilities needed for the future. Consequently, it is imperative that DoD to determine what U.S. military forces with what attributes and capabilities are envisioned in the near- and mid-term. Having made that determination, DoD should then make clear, focused decisions about what kinds of weapons and technologies are central to the long term security of this country, and then do what is necessary to develop these capabilities. Industry hopes the Comprehensive Review launched earlier this year will provide answers to these questions.

## Internals

### IL – Defense k2 Stock Market

#### Research analyzing 25 years of historical patterns proves defense stock investments resolve slow growth

Stanley 18 (Morgan Stanley, 6-20-2018, "The Investor’s Guide to Playing Defense," https://www.morganstanley.com/ideas/defensive-investing-stocks)

As investors contemplate what slowing growth means for markets, Morgan Stanley Research details which sectors and industries have traditionally been more defensive and where this may be changing. Creating a defensive portfolio can help support performance and reduce risk during times of market stress. But, as markets begin to contemplate slowing growth and an aging cycle, what does defensive positioning look like today? Defensive classics are sectors and industries that have traditionally held up during challenging market conditions—and a few that even thrive when times get tough. Tweet this Share this on LinkedIn Share this on Facebook Email this Although markets have enjoyed one of the longest expansions on record, there is risk of a shift to downturn in the next twelve months. Ahead of any shift, Morgan Stanley Research analyzed nearly 25 years of historical patterns to identify the industries and sectors primed to withstand an equity market downturn. The results aren't always what investors might expect. “We think this work challenges some of the traditional notions of defensiveness on a few fronts," says Adam Virgadamo, U.S. Equity Strategist and lead author of the recent report, The Defensive Scorecard: U.S. Equities. The report combines historical data and fundamental analysis to assess if what was defensive in the past will continue to be so in the future. Related Reading RESEARCH Mid-year Outlook: Investors Face The End of Easy RESEARCH A Spotter's Guide to Bull Corrections and Bear Markets RESEARCH Could Rising Oil Prices Tank Global Growth? Winter Is Coming The research team's defensive scorecard evaluated industries and sectors based on three key metrics. The first is defensive performance—how returns fare during times of stress. The next metric is business stability, which assesses factors such as cash flow and sales growth volatility. Investor income is the final broad metric, with analysts believing that stocks that return cash to shareholders have a larger buffer against price changes. In addition to quantitative screening, the scorecard also considers market trends and fundamental analyst input. The results yielded some expected defensive stalwarts—as well as a few surprises. The Defensive Classics The workhorses of this scorecard are what the Research team refers to as “Defensive Classics." These include sectors and industries that have traditionally held up during challenging market conditions—and a few that even thrive when times get tough. The report classifies the Aerospace and Defense industry as “highly defensive," mainly because of growing Department of Defense budgets and an elevated global threat environment. Other solid defensive classics include Beverages, Health Care Equipment, Utilities, and Integrated Oil and Gas. In many cases, these industries represent products and services that consumers and governments rely on regardless of economic circumstances, or they're bolstered by demographic trends, such as an aging population.

#### Defense stocks are key

Sheetz 9/9 (Michael Sheetz, 09-09-2019, “Goldman has the perfect stocks to buy amid the recession and trade war fears gripping the market,” CNBC, https://www.cnbc.com/2019/09/09/goldman-sachs-perfect-stocks-for-market-fears-of-recession-trade-war.html)

Whether a recession is just around the corner is a hotly debated topic among U.S. stock market investors, especially as the trade war with China drags on and some economic indicators flash warning signs. Expecting the U.S. to narrowly avoid a recession, Goldman Sachs recommends one group of stocks with a good track record in this type of precarious environment: aerospace and defense companies. As a bonus, Goldman Sachs analyst David Kostin said, aerospace and defense stocks come “with the lowest exposure to China.” Kostin’s recommendation comes as a response to the decline in the ISM manufacturing index, which last week fell below 50 points for the first time in three years. A reading below 50 indicates a contraction. While some may raise concern about the drop, Kostin called the index “an inconsistent predictor of US recessions.” But Kostin noted that, when a recession didn’t occur following the ISM dropping below 50, aerospace and defense stocks outpaced the growth of the S&P 500 in the six months after. WATCH NOW VIDEO06:36 Joseph Stiglitz on what will cause the next recession So in other words, when economic conditions deteriorate but ultimately do not lead to a recession, the stock market typically does well in this period with defensive-type stocks outperforming. The S&P 500 has historically gained 22% in the six months following an ISM contraction that doesn’t lead to a recession. And aerospace/defense stocks do even better, gaining an additional 2.5% during the same period, Goldman found. “During the past 10 years, Aerospace & Defense has been least sensitive to US and global economic growth across Industrials subsectors,” Kostin said.

#### Health of defense stocks is critical to avert total market collapse

Alessandro Bruno, holds a BA and MA in International Relations all at the University of Toronto. Alessandro has been published extensively and is a frequent guest on television news programs including the BBC, CBC, and CTV, “Thank the CIA and FBI for Averting a Stock Market Crash”, July 19th 2018, https://www.lombardiletter.com/thank-cia-fbi-for-averting-stock-market-crash/29281/

At Lombardi Letter, I’ve ‘enthusiastically’ embraced the defense industry and its stocks on Wall Street. Therefore, it was not without some trepidation, fearing a defense sector-led stock market crash, that I followed the Trump-Putin summit in Helsinki. Would we get a stock market crash in exchange for a slightly better Washington-Moscow relationship? Over the past two years, the financial performance of big military contractors has pushed defense stocks to record highs. It’s no accident that this bullish phase for the likes of Lockheed Martin Corporation (NYSE:LMT) and its military-industrial rivals has coincided with an especially bad period for U.S.-Russia relations. The détente on display after the longer-than-expected talks between U.S. President Donald Trump and Russian President Vladimir Putin was downright dangerous. The two leaders appeared to have gotten along. No specifics were announced though; neither Trump nor Putin hinted at major concessions on key geopolitical crises. Yet, it’s evident that the foundations for a resumption of dialogue between Washington and Moscow have been established. Or rather, were established. Not 24 hours after Trump expressed satisfaction with Putin’s assurances that Russia did not hack the 2016 presidential election, the U.S. president made a 180-degree turn on the Russia-meddling allegations. “The president and his administration are working very hard to make sure that … Russia is unable to meddle in our elections, as they have done in the past,” said White House Press Secretary Sarah Huckabee Sanders on July 18. (Source: “White House attempts to clarify Trump’s response to whether Russia is still targeting U.S. elections,” The Washington Post, July 18, 2018.) Sanders added that the U.S. administration believes that a Russian threat still exists and that steps have been taken to address it. In a few simple words and tweets, the U.S. president was persuaded to assure the establishment (or what some call the “Deep State”) that a confrontation with Russia remains on the table. Trump backed down from statements that both contradicted and supported CIA and FBI officials over the nature and extent of Russia’s supposed threat. Thus, after meeting Putin, shaking his hand, and appearing to take Putin’s version of 2016 election events as the correct one, it seems all is well. Best Thing About Trump Is He Didn’t Start a War, But That’s About to Change The Cold War remains at a temperature suitable for serving fine vodka. It’s not yet time for Russians and Americans to enjoy a hot toddy. That’s one reason investors did not react to the Trump-Putin summit by pulling away from defense sector companies, averting a stock market crash. In fact, defense sector stocks went higher, despite the “threat” of peace.

#### Defense industry keeps the stock market stable

Jon D Markman, The Street, “The Dow's Secret Weapon: Defense Old-Timers”, 2002, https://www.thestreet.com/story/10011944/1/the-dows-secret-weapon-defense-old-timers.html

The lesson here is profound for investors of all stripes. The Dow Jones Industrials are 30 stocks chosen by Wall Street Journal editors for their representation of the U.S. economy. The lineup is changed at a glacial pace compared with the S&P 500 and the Nasdaq 100, and thus it represents the virtues of both long-term investing and value investing. The last changes to the Dow came in November 1999, when Intel ( INTC - Get Report), Microsoft ( MSFT - Get Report), Home Depot ( HD - Get Report) and SBC Communications were added. In contrast, Standard & Poor's changes horses at least once a month, and the Nasdaq 100 -- which accounts for almost all of the movement of the Nasdaq Composite -- changes substantially every year. While both the S&P 500 and Nasdaq 100 have seen several of their components sink below $1 in the past two years -- Enron Kmart , BroadVision ( BVSN - Get Report) and Exodus Communications ( EXDSQ) come to mind -- the Dow 30 have been a rock of stability, as the worst performers in one year have an uncanny knack for rebounding the next. In 2000, for instance, Microsoft was the worst Dow performer; in 2001 it was the best. In 2001, Boeing ( BA) was the worst performer. So far in 2002, it's one of the best. Secret Weapon: Defense Bears have warned that the market's recent surge has reflected too much optimism about the potential for continued consumer spending and a revival in business spending this year. But both of those arguments ignore the plain fact that the Dow's secret store of energy this year has come from shares of companies tied to military spending. Indeed, you could say that defense stocks have turned out to be the cavalry of the 2002 stock market, leading the charge in a way not witnessed since the early '80s. United Technologies ( UTX), Boeing and Honeywell ( HON) are all up 60% to 80% since the terror attacks in September, adding ka-pow to the Dow. Those three stocks could be done for now, as their exposure to commercial aviation may hamper progress. But many of their peers face the real prospect of double-digit earnings growth due to increases in Defense Department purchasing over the next five years. Bombs and missiles and guidance systems are the consumer nondurables of Planet Pentagon, and as both the war on terrorism and training for future wars progress, inventories are rising from extremely depleted levels and will need constant replenishment. Perhaps one day we will be bemoaning the "bullet bubble," but for now it's full speed ahead on the stockpiling of these companies' products. Paul H. Nisbet, a veteran aerospace analyst at JSA Research in Newport, R.I., notes additionally that defense contractors are in some circles considered a safe haven from the accounting issues afflicting the rest of Wall Street. He's got two reasons. First, earnings prospects are consistent enough not to compel managers to fudge to make their numbers. Second, all of their deals with the Pentagon are scrutinized by civil servants at the federal Defense Contract Audit Agency, which is believed to be much harsher than your local Arthur Andersen office.

### IL---Defense Market KT Economy

#### Defense is critical to the US economy – its fueled by international sales

Daniel N. Stohr Director, Communications Aerospace Industries Association, “Aerospace and Defense Industry is vital for U.S. economy.”, April 27th 2016, https://news.thomasnet.com/companystory/aerospace-and-defense-industry-is-vital-for-u-s-economy-20056751

Arlington, Va. — The American aerospace and defense industry is a vital component of the U.S. economy, not solely for the role the industry plays in national security, transportation and technological innovation, but also because its influence spans many sectors and every state countrywide. This is the conclusion of a new study commissioned by AIA from business information firm IHS Inc. about the industry’s economic impact. “This new study demonstrates definitively that America’s aerospace and defense industry is an engine of economic progress, in addition to its having a vital role in helping keep our citizens safe and secure,” said AIA President and CEO David F. Melcher. “When you hear people talk about the importance of ensuring we keep good manufacturing jobs in the U.S., you can start with the solid foundation of our industry.” In the study, IHS estimates that in 2015 the U.S. aerospace and defense industry fueled the following contributions to the U.S. economy: Supported 1.7 million jobs within businesses producing end-user goods and services and within the industry’s supply chain, with about 531,000 jobs in the industry’s commercial aerospace segment (e.g. civil and general aviation aircraft, helicopters and space systems) and 511,000 jobs in the defense and national security segment of the industry (e.g. military aircraft, ground and sea systems, armaments and space systems). Represented approximately two percent of the nation’s employment base and 13 percent of the nation’s manufacturing employment base. Generated $300 billion in economic value, representing 1.8 percent of total nominal Gross Domestic Product in the U.S., and 10 percent of manufacturing output. Produced labor income approximately 44 percent above the national average – $93,000 average labor income per job – reflecting the highly skilled nature of the workforce. Provided tax receipts to federal, state and local governments from companies and their employees of $63 billion, or about 1.7 percent of total tax revenues. Melcher noted that contributing to economic performance of the American aerospace and defense industry of late has been “strong growth in international markets, including a record balance of trade in 2015 of $69.6 billion, which has helped accelerate our country’s recent economic recovery.” Melcher pointed out that the good news abroad “helped our industry deal with the negative headwinds caused by cuts to federal defense, civil aviation and space budgets mandated by the Budget Control Act of 2011 and global market forces that have negatively impacted the U.S. manufacturing base.”

### IL---Arms Sales KT Growth

#### International sales growing now – critical to defense industry

Jeff Daniels, CNBC, “Defense manufacturers cashing in on Trump’s global arms push”, Jan 2018, https://www.cnbc.com/2018/01/24/trump-as-us-arms-pitchman-.html

Foreign arms sales are growing in importance to the top line of big defense firms and may get an added boost this year due to initiatives by President Donald Trump. Sales to allies and other friendly countries also have allowed American defense companies to extend production lines that otherwise might be shuttered or downsized. Trump’s personal involvement in defense sales also hasn’t gone unnoticed, whether touting $350 billion in weapons to Saudi Arabia last May or suggesting in November that Japan should buy more U.S.-made equipment to shoot North Korean missiles “out of the sky.” Lockheed Martin and Raytheon, two defense companies with upcoming earnings reports, stand to benefit from increased international sales over the next few years, according to analysts. A lot of the recent growth in U.S. defense sales is in missile defense systems and Lockheed’s F-35 stealth fighter jets. “We’re seeing a global upturn in defense spending,” said Peter Arment, a defense analyst at Robert W. Baird. “We’re seeing Europe, NATO, the Middle East, Asia and U.S. domestic.” For defense companies, international weapons sales can sometimes be more lucrative too. Arment said direct arms sales from U.S. defense companies to foreign countries “can have a higher margin” than going through Washington’s Foreign Military Sales program. Reuters reported earlier this month that the administration plans as part of its new “Buy American” plan to have embassy personnel “help drum up billions of dollars more in business overseas for the U.S. weapons industry.” “This is the government’s job in many ways,” Roman Schweizer, a Cowen defense analyst and former government acquisition official, told CNBC. Regardless of the administration’s new plans, Schweizer said there are diplomats and other federal workers at embassies around the world already actively promoting U.S. defense exports. “We have used foreign military sales to help friends and allies around the world and also to help U.S. defense manufacturers around the world,” Schweizer said. However, Reuters said the White House’s plans will be “going beyond the limited assistance” now provided by overseas American military attaches and diplomats. The White House didn’t respond to CNBC’s request for comment. Remy Nathan, vice president of international affairs at the Aerospace Industries Association, said the Arlington, Virginia-based industry trade group representing some top American defense companies “is very much in favor of enhancing” the current arrangement. Specifically, the administration wants to make it easier to export U.S. defense products abroad, whether drones, aircraft or ships. It comes at a time when the Chinese are getting more aggressive in selling weapons overseas. The Trump administration has already relaxed rules allowing more military sales to countries such as Saudi Arabia, which has been accused of war crimes by some human rights groups. Also, the administration lifted human rights conditions for arms sales to other countries, including Bahrain. In May, when he visited Saudi Arabia on his first foreign-nation visit, the president announced a massive, multiyear arms deal with the kingdom that he said would add hundreds of thousands of U.S. jobs. But some questioned whether all of the weapons were part of a new agreement. Even so, an expanded “Buy American” program in defense helps the administration in its efforts to boost manufacturing jobs. The U.S. had nearly $42 billion in foreign military sales during fiscal 2017, up from $33.6 billion in the previous year, according to the Defense Security Cooperation Agency. There is an expectation that foreign military sales could grow again this fiscal year due to increased global tensions and efforts by U.S. allies to increase their overall defense spending. Even neutral Sweden is increasing its defense spending due to worries about a more aggressive Russia. Also, a Cold War-era mentality in Sweden led the government to recently reissue information about civil defense to some 4.7 million households. For weapons, Sweden is looking to buy a $1.2 billion Patriot air-and-missile defense system from Raytheon. In November, Poland obtained U.S. State Department approval on a $10.5 billion purchase of the Patriot system. Romania, another NATO country, was cleared in July to buy the Patriot system. In all, Raytheon has built more than 220 units of the Patriot system, delivering them to customers in 14 nations worldwide. Raytheon also has benefited from recent anti-ballistic missile sales to Japan. Japan’s government also recently approved the purchase of the Lockheed-made Aegis Ashore missile defense system. Raytheon’s international sales made up about 32 percent of its total sales in the first three quarters of 2017. When it reports year-end results Thursday it’s possible the company will mark the 14th consecutive year of international sales growth. Lockheed’s F-35 stealth fighter aircraft is now the driver for its foreign defense sales growth. Of the nine original F-35 partner countries, six how have jets in their fleet. The planes are not manufactured only in the U.S. but also in Japan. Lockheed CEO Marillyn Hewson said in October during the previous earnings call that the company was on track in 2017 to have 30 percent of sales come from overseas, up from 27 percent in 2016. Lockheed is scheduled to report its full-year 2017 results on Monday. Lockheed won a $3.8 billion deal last year to sell F-16 fighter upgrades and new aircraft to the government of Bahrain. According to Hewson, the contract is expected to extend the F-16 production beyond the 2021 timeframe. Similarly, Boeing’s F-15 fighter production stands to benefit since the U.S. government announced last month that Qatar will buy 15 of the aircraft. Production for the F-15QA could start next year and extend assembly-line work into 2022. Also, the contract is good news for numerous suppliers who get work for everything from the components to the avionics and airframe systems.

### IL—Market Collapse

#### Stock market collapse leads to full recession.

Miao et al. 12 (Jianjun Miao† , Pengfei Wang‡ , and Lifang Xu§. †Department of Economics, Boston University ‡Department of Economics, Hong Kong University of Science and Technology, §Department of Economics, Hong Kong University of Science and Technology, “Stock Market Bubbles and Unemployment”, https://pdfs.semanticscholar.org/51ee/14529d89b630638b0ca428e929f56d7f3b48.pdf)

This paper provides a theoretical study that links unemployment to the stock market bubbles and crashes. Our theory is based on three observations from the U.S. labor, credit, and stock markets. First, the U.S. stock market has experienced booms and busts and these large swings may not be explained entirely by fundamentals. Shiller (2005) documents extensive evidence on the U.S. stock market behavior and argues that many episodes of stock market booms are attributed to speculative bubbles. Second, the stock market booms and busts are often accompanied by the credit market booms and busts. A boom is often driven by a rapid expansion of credit to the private sector accompanied by rising asset prices. Following the boom phase, asset prices collapse and a credit crunch arises. This leads to a large fall in investment and consumption and an economic recession may follow.1 Third, the stock market and unemployment are highly correlated.2 Figure 1. plots the post-war U.S. monthly data of the price-earnings ratio (the real Standard and Poor’s Composite Stock Price Index divided by the ten-year moving average real earnings on the index) constructed by Robert Shiller and the unemployment rate downloaded from the Bureau of Labor Statistics (BLS).3 This figure shows that, during recessions, the stock price fell and the unemployment rate rose. In particular, during the recent Great Recession, the unemployment rate rose from 5.0 percent at the onset of the recession to a peak of 10.1 percent in October 2009, while the stock market fell by more than 50 percent from October 2007 to March 2009. [Insert Figure 1 Here.] Motivated by the preceding observations, we build a search model with credit constraints, based on Blanchard and Gali (2010). The Blanchard and Gali model is isomorphic to the Diamond-Mortensen-Pissarides (DMP) search and matching model of unemployment (Diamond (1982), Mortensen (1982), and Pissarides (1985)). Our key contribution is to introduce credit constraints in a way similar to Miao and Wang (2011a,b,c, 2012a,b).4 The presence of this type of credit constraints can generate a stock market bubble through a positive feedback loop mechanism. The intuition is the following: When investors have optimistic beliefs about the stock market value of a firm’s assets, the firm wants to borrow more using its assets as collateral. Lenders are willing to lend more in the hope that they can recover more if the firm defaults. Then the firm can finance more investment and hiring spending. This generates higher firm value and justifies investors’ initial optimistic beliefs. Thus, a high stock market value of the firm can be sustained in equilibrium. There is another equilibrium in which no one believes that firm assets have a high value. In this case, the firm cannot borrow more to finance investment and hiring spending. This makes firm value indeed low, justifying initial pessimistic beliefs. We refer to the first type of equilibrium as the bubbly equilibrium and to the second type as the bubbleless equilibrium. Both types can coexist due to self-fulfilling beliefs. In the bubbly equilibrium, firms can hire more workers and hence the market tightness is higher, compared to the bubbleless equilibrium. In addition, in the bubbly equilibrium, an unemployed worker can find a job more easily (i.e., the job-finding rate is higher) and hence the unemployment rate is lower. [Insert Figure 2 Here.] After analyzing these two types of equilibria, we follow Weil (1987), Kocherlakota (2009) and Miao and Wang (2011a,b,c, 2012a,b) and introduce a third type of equilibrium with stochastic bubbles. Agents believe that there is a small probability that the stock market bubble may burst. After the burst of the bubble, it cannot re-emerge by rational expectations. We show that this shift of beliefs can also be self-fulfilling. After the burst of the bubble, the economy enters a recession with a persistent high unemployment rate. The intuition is the following. After the burst of the bubble, the credit constraints tighten, causing firms to reduce investment and hiring. An unemployed worker is then harder to find a job, generating high unemployment. Our model can help explain the high unemployment during the Great Recession. Figures 2 and 3 plot the hires rate and the job-finding rate from the first month of 2001 to the last month of 2011 using the Job Openings and Labor Turnover Survey (JOLTS) data set.5 These figures reveal that both the job-finding rate and the hires rate fell sharply following the stock market crash during the Great Recession. In particular, the hires rate and the job-finding rate fell from 4.4 percent and 0.7, respectively, at the onset of the recession to about 3.1 percent and 0.25, respectively, in the end of the recession.

#### Stock market declines can collapse the economy

Barro ’17 (Robert J. Barro – PhD in Economics @ Harvard University, Paul M. Warburg Professor of Economics @ Harvard University, senior fellow of the Hoover Institution of Stanford University, and a research associate of the National Bureau of Economic Research. José F.Ursúa – PhD candidate in Economics @ Harvard University, “Stock-market crashes and depressions,” *Research In Economics*, Volume 71, Issue 3, September 2017, ScienceDirect)

The long-term history for 30 countries indicates that stock-market crashes (cumulative real returns of –0.25 or worse) have substantial predictive power for depressions (cumulative macroeconomic declines by 10 percent or more). In a non-war environment, the realization of a stock-market return of –0.25 or worse implies that the probability of a minor depression (macroeconomic decline by 10 percent or more) is 22 percent, and the probability of a major depression (decline by 25 percent or more) is 3 percent. When the stock return is –0.40 or worse, the corresponding depression probabilities are 30 percent and 4 percent. The probabilities are 46 percent and 8 percent, respectively, when a stock-market crash of –0.25 or worse in a non-war period is accompanied by a currency or banking crisis and occurs during a time of global economic turmoil. Given the stock-market crashes for the United States and other countries in 2008 (characterized as non-war, featuring a currency or banking crisis, and occurring during a global event), these last probabilities applied at the beginning of 2009. The long-term data also show that the majority (67 percent) of minor, non-war depressions are accompanied by stock-market crashes, whereas most major, non-war depressions (83 percent) are accompanied by these crashes. Therefore, in the absence of a stock-market crash, the occurrence of a depression is highly unlikely. The full history of 3037 annual observations reveals 71 matched cases of stock-market crashes and depressions, of which 41 percent are associated with war. The years contained in the 71 cases constitute 12 percent of the overall sample (because the average duration of a crisis was 4.9 years). The co-movement between stock returns and macroeconomic changes for the 71 cases may be sufficient to explain the observed equity premium of 7 percent, assuming that the coefficient of relative risk aversion is between 3.5 and 4. The required coefficient falls to 3.5 or less if we bring in the additional 19 percent of the sample that features a stock-market crash or depression but not both. A crucial aspect of this analysis is that the computed covariances allow for a flexible timing pattern between stock returns and macroeconomic changes. In future research, we plan to assess this flexible covariance approach in more detail. Part of this research involves the roles of missing data and wartime price controls, which can distort the covariances calculated from a rigid timing structure.

#### Stock market crashes cause major recessions.

Farmer 15 (Roger, Professor of Economics at UCLA, “The Stock Market Crash Really Did Cause the Great Recession”, http://128.97.206.178/NewWeb/PdfFiles/stock\_market\_really.pdf)

Rosnick (2013) has argued that a univariate model provides a better prediction of the unemployment rate than Farmer’s published model. I show here, that although the univariate model provides more accurate out-of-sample forecasts than the VECM, a bivariate model that includes information from the stock market outperforms both alternatives. My results establish that the stock market contains significant information that helps to predict the future unemployment rate. A big stock market crash, in the absence of central bank intervention, will be followed by a major recession one to four quarters later. Further, the connection between changes in the stock market and changes in the unemployment rate has remained structurally stable for seventy years.

### IL - Stock Market K2 The Economy

#### Even if markets are resilient - no room for monetary easing now – link outweighs

Geithner 17 (January/February, Tim, former Treasury Secretary, “Are We Safe Yet?”, https://www.foreignaffairs.com/articles/united-states/2016-12-12/are-we-safe-yet)

A country’s ability to limit the intensity of a financial crisis also depends on how much room for maneuver its fiscal- and monetary-policy makers enjoy. Today, that room has shrunk in most of the major developed economies. Public debt as a share of GDP has soared. The overnight rates at which central banks lend money have fallen close to zero, and in some countries, they have dipped into the negative. The costs of long-term government borrowing have also fallen to record lows. And credit spreads—the difference between government and corporate borrowing costs—have narrowed. In terms of their ability to raise spending and lower interest rates, governments have less ammunition. As far as monetary policy goes, the experience with negative rates so far is not that promising. Many central banks fear that negative rates have hurt rather than helped the economy, and even those that believe they have helped worry that rates cannot fall much further before they start to backfire. On the fiscal side, almost all the major economies have less room for stimulus than before the crisis. And where there is still room, the political constraints on using it may prove hard to overcome. The only remaining untried tactic is the more coordinated deployment of expansionary fiscal and monetary policy. Perhaps that will prove possible, and if so, perhaps the impact will be powerful. But it’s hard to say. The Federal Reserve, for its part, still has more room for maneuver in terms of monetary policy than other major central banks do. It could push long-term interest rates lower in a crisis. But even in mild recessions, the Fed has typically had to lower borrowing rates by three to five percentage points, and it does not have that room today. The United States also has less fiscal capacity than it did before the crisis. From 2007 to the end of 2009, the debt-to-GDP ratio increased from roughly 35 percent to 75 percent, where it remains today. Most of this increase owed to lower tax revenues caused by the recession and to the jump in spending that occurred as automatic fiscal stabilizers, such as unemployment benefits, took effect. These costs would have soared even higher in the absence of the stimulus package and the financial rescue. In fact, rather than costing the five to ten percent of GDP that many expected, the rescue earned a modest positive financial return for the public. The stimulus was designed to be temporary and was quickly wound down. The federal deficit fell from its peak of ten percent of GDP in 2009 to around three percent, where it has stayed since 2014. Still, the debt-to-GDP ratio remains close to its postcrisis peak, and absent changes in policy, it will rise in the coming years. The bottom line is that even though policymakers still have some remaining room to maneuver, they have much less than they did on the eve of previous economic downturns. There is no reassuring precedent for the present diminished state of the U.S. fiscal and monetary arsenal. The Fed has no experience navigating through a substantial shock to private demand without the ability to lower interest rates substantially and quickly. Most of the burden in responding to a crisis would therefore fall on fiscal policy, where the political constraints on action still seem daunting. The same story has played out in most advanced economies, and the implications are troubling. A shock could cause greater damage, last longer, and spread wider.

## Impact

### MPX—Decline = War

#### Nuclear war.

Stein Tønnesson 15, Research Professor, Peace Research Institute Oslo; Leader of East Asia Peace program, Uppsala University, 2015, “Deterrence, interdependence and Sino–US peace,” International Area Studies Review, Vol. 18, No. 3, p. 297-311.

Several recent works on China and Sino–US relations have made substantial contributions to the current understanding of how and under what circumstances a combination of nuclear deterrence and economic interdependence may reduce the risk of war between major powers. At least four conclusions can be drawn from the review above: first, those who say that interdependence may both inhibit and drive conflict are right. Interdependence raises the cost of conflict for all sides but asymmetrical or unbalanced dependencies and negative trade expectations may generate tensions leading to trade wars among inter-dependent states that in turn increase the risk of military conflict (Copeland, 2015: 1, 14, 437; Roach, 2014). The risk may increase if one of the interdependent countries is governed by an inward-looking socio-economic coalition (Solingen, 2015); second, the risk of war between China and the US should not just be analysed bilaterally but include their allies and partners. Third party countries could drag China or the US into confrontation; third, in this context it is of some comfort that the three main economic powers in Northeast Asia (China, Japan and South Korea) are all deeply integrated economically through production networks within a global system of trade and finance (Ravenhill, 2014; Yoshimatsu, 2014: 576); and fourth, decisions for war and peace are taken by very few people, who act on the basis of their future expectations. International relations theory must be supplemented by foreign policy analysis in order to assess the value attributed by national decision-makers to economic development and their assessments of risks and opportunities. If leaders on either side of the Atlantic begin to seriously fear or anticipate their own nation’s decline then they may blame this on external dependence, appeal to anti-foreign sentiments, contemplate the use of force to gain respect or credibility, adopt protectionist policies, and ultimately refuse to be deterred by either nuclear arms or prospects of socioeconomic calamities. Such a dangerous shift could happen abruptly, i.e. under the instigation of actions by a third party – or against a third party. Yet as long as there is both nuclear deterrence and interdependence, the tensions in East Asia are unlikely to escalate to war. As Chan (2013) says, all states in the region are aware that they cannot count on support from either China or the US if they make provocative moves. The greatest risk is not that a territorial dispute leads to war under present circumstances but that changes in the world economy alter those circumstances in ways that render inter-state peace more precarious. If China and the US fail to rebalance their financial and trading relations (Roach, 2014) then a trade war could result, interrupting transnational production networks, provoking social distress, and exacerbating nationalist emotions. This could have unforeseen consequences in the field of security, with nuclear deterrence remaining the only factor to protect the world from Armageddon, and unreliably so. Deterrence could lose its credibility: one of the two great powers might gamble that the other yield in a cyber-war or conventional limited war, or third party countries might engage in conflict with each other, with a view to obliging Washington or Beijing to intervene.

#### Economic decline causes nuclear war

Eric Mann, Master of Arts in Global Security Studies Johns Hopkin, “AUSTERITY, ECONOMIC DECLINE, AND FINANCIAL WEAPONS OF WAR: A NEW PARADIGM FOR GLOBAL SECURITY,” May 2014, <https://jscholarship.library.jhu.edu/bitstream/handle/1774.2/37262/MANN-THESIS-2014.pdf>

The conclusions reached in this thesis demonstrate how economic considerations within states can figure prominently into the calculus for future conflicts. The findings also suggest that security issues with economic or financial underpinnings will transcend classical determinants of war and conflict, and change the manner by which rival states engage in hostile acts toward one another. The research shows that security concerns emanating from economic uncertainty and the inherent vulnerabilities within global financial markets will present new challenges for national security, and provide developing states new asymmetric options for balancing against stronger states. The security areas, identified in the proceeding chapters, are likely to mature into global security threats in the immediate future. As the case study on South Korea suggest, the overlapping security issues associated with economic decline and reduced military spending by the United States will affect allied confidence in America’s security guarantees. The study shows that this outcome could cause regional instability or realignments of strategic partnerships in the Asia-pacific region with ramifications for U.S. national security. Rival states and non-state groups may also become emboldened to challenge America’s status in the unipolar international system. The potential risks associated with stolen or loose WMD, resulting from poor security, can also pose a threat to U.S. national security. The case study on Pakistan, Syria and North Korea show how financial constraints affect weapons security making weapons vulnerable to theft, and how financial factors can influence WMD proliferation by contributing to the motivating factors behind a trusted insider’s decision to sell weapons technology. The inherent vulnerabilities within the global financial markets will provide terrorists’ organizations and other non-state groups, who object to the current international system or distribution of power, with opportunities to disrupt global finance and perhaps weaken America’s status. A more ominous threat originates from states intent on increasing diversification of foreign currency holdings, establishing alternatives to the dollar for international trade, or engaging financial warfare against the United States.

#### Data goes neg---economic crisis causes war---strong statistical support

Royal 10 – Jedediah Royal, Director of Cooperative Threat Reduction at the U.S. Department of Defense, 2010, “Economic Integration, Economic Signaling and the Problem of Economic Crises,” in Economics of War and Peace: Economic, Legal and Political Perspectives, ed. Goldsmith and Brauer, p. 213-215

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow.¶ First, on the systemic level, Pollins (2008) advances Modelski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such, exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin. 1981) that leads to uncertainty about power balances, increasing the risk of miscalculation (Feaver, 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner. 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown.¶ Second, on a dyadic level, Copeland's (1996, 2000) theory of trade expectations suggests that 'future expectation of trade' is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline, particularly for difficult to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.4¶ Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write:¶ The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in turn returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other. (Blomberg & Hess, 2002. p. 89)¶ Economic decline has also been linked with an increase in the likelihood of terrorism (Blomberg, Hess, & Weerapana, 2004), which has the capacity to spill across borders and lead to external tensions.¶ Furthermore, crises generally reduce the popularity of a sitting government. “Diversionary theory" suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996), DeRouen (1995). and Blomberg, Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999), and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked to an increase in the use of force.¶ In summary, recent economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict at systemic, dyadic and national levels.5 This implied connection between integration, crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.¶ This observation is not contradictory to other perspectives that link economic interdependence with a decrease in the likelihood of external conflict, such as those mentioned in the first paragraph of this chapter. Those studies tend to focus on dyadic interdependence instead of global interdependence and do not specifically consider the occurrence of and conditions created by economic crises. As such, the view presented here should be considered ancillary to those views.

#### Econ decline causes global wars

Liu 18 Qian Liu, China-based economist. “From economic crisis to World War III.” Project Syndicate. 11/8/2018. <https://www.project-syndicate.org/commentary/economic-crisis-military-conflict-or-structural-reform-by-qian-liu-2018-11>

The next economic crisis is closer than you think. But what you should really worry about is what comes after: in the current social, political, and technological landscape, a prolonged economic crisis, combined with rising income inequality, could well escalate into a major global military conflict. The 2008-09 global financial crisis almost bankrupted governments and caused systemic collapse. Policymakers managed to pull the global economy back from the brink, using massive monetary stimulus, including quantitative easing and near-zero (or even negative) interest rates. But monetary stimulus is like an adrenaline shot to jump-start an arrested heart; it can revive the patient, but it does nothing to cure the disease. Treating a sick economy requires structural reforms, which can cover everything from financial and labour markets to tax systems, fertility patterns, and education policies. Policymakers have utterly failed to pursue such reforms, despite promising to do so. Instead, they have remained preoccupied with politics. From Italy to Germany, forming and sustaining governments now seems to take more time than actual governing. Greece, for example, has relied on money from international creditors to keep its head (barely) above water, rather than genuinely reforming its pension system or improving its business environment. The lack of structural reform has meant that the unprecedented excess liquidity that central banks injected into their economies was not allocated to its most efficient uses. Instead, it raised global asset prices to levels even higher than those prevailing before 2008. In the United States, housing prices are now 8% higher than they were at the peak of the property bubble in 2006, according to the property website Zillow. The price-to-earnings (CAPE) ratio, which measures whether stock-market prices are within a reasonable range, is now higher than it was both in 2008 and at the start of the Great Depression in 1929. As monetary tightening reveals the vulnerabilities in the real economy, the collapse of asset-price bubbles will trigger another economic crisis – one that could be even more severe than the last, because we have built up a tolerance to our strongest macroeconomic medications. A decade of regular adrenaline shots, in the form of ultra-low interest rates and unconventional monetary policies, has severely depleted their power to stabilise and stimulate the economy. If history is any guide, the consequences of this mistake could extend far beyond the economy. According to Harvard’s Benjamin Friedman, prolonged periods of economic distress have been characterised also by public antipathy toward minority groups or foreign countries – attitudes that can help to fuel unrest, terrorism, or even war. For example, during the Great Depression, US President Herbert Hoover signed the 1930 Smoot-Hawley Tariff Act, intended to protect American workers and farmers from foreign competition. In the subsequent five years, global trade shrank by two-thirds. Within a decade, World War II had begun. To be sure, WWII, like World War I, was caused by a multitude of factors; there is no standard path to war. But there is reason to believe that high levels of inequality can play a significant role in stoking conflict. According to research by the economist Thomas Piketty, a spike in income inequality is often followed by a great crisis. Income inequality then declines for a while, before rising again, until a new peak – and a new disaster. Though causality has yet to be proven, given the limited number of data points, this correlation should not be taken lightly, especially with wealth and income inequality at historically high levels. This is all the more worrying in view of the numerous other factors stoking social unrest and diplomatic tension, including technological disruption, a record-breaking migration crisis, anxiety over globalisation, political polarisation, and rising nationalism. All are symptoms of failed policies that could turn out to be trigger points for a future crisis. Voters have good reason to be frustrated, but the emotionally appealing populists to whom they are increasingly giving their support are offering ill-advised solutions that will only make matters worse. For example, despite the world’s unprecedented interconnectedness, multilateralism is increasingly being eschewed, as countries – most notably, Donald J. Trump’s US – pursue unilateral, isolationist policies. Meanwhile, proxy wars are raging in Syria and Yemen. Against this background, we must take seriously the possibility that the next economic crisis could lead to a large-scale military confrontation. By the logic of the political scientist Samuel Huntington, considering such a scenario could help us avoid it because it would force us to take action. In this case, the key will be for policymakers to pursue the structural reforms that they have long promised while replacing finger-pointing and antagonism with a sensible and respectful global dialogue. The alternative may well be global conflagration.

### Mpx—Isolationism

#### Econ collapse spurs isolationism---sparks rogue prolif by Iran and NK and conflict between Russia, China, Indo-Pak

Freidberg 8 (Aaron, Professor of Politics and International Relations – Princeton University's Woodrow Wilson School, “The Dangers of a Diminished America”, Wall Street Journal, 10-21, http://online.wsj.com/article/SB122455074012352571.html?mod=googlenews\_wsj)

With the global financial system in serious trouble, is America's geostrategic dominance likely to diminish? If so, what would that mean? One immediate implication of the crisis that began on Wall Street and spread across the world is that the primary instruments of U.S. foreign policy will be crimped. The next president will face an entirely new and adverse fiscal position. Estimates of this year's federal budget deficit already show that it has jumped $237 billion from last year, to $407 billion. With families and businesses hurting, there will be calls for various and expensive domestic relief programs. In the face of this onrushing river of red ink, both Barack Obama and John McCain have been reluctant to lay out what portions of their programmatic wish list they might defer or delete. Only Joe Biden has suggested a possible reduction -- foreign aid. This would be one of the few popular cuts, but in budgetary terms it is a mere grain of sand. Still, Sen. Biden's comment hints at where we may be headed: toward a major reduction in America's world role, and perhaps even a new era of financially-induced isolationism. Pressures to cut defense spending, and to dodge the cost of waging two wars, already intense before this crisis, are likely to mount. Despite the success of the surge, the war in Iraq remains deeply unpopular. Precipitous withdrawal -- attractive to a sizable swath of the electorate before the financial implosion -- might well become even more popular with annual war bills running in the hundreds of billions. Protectionist sentiments are sure to grow stronger as jobs disappear in the coming slowdown. Even before our current woes, calls to save jobs by restricting imports had begun to gather support among many Democrats and some Republicans. In a prolonged recession, gale-force winds of protectionism will blow. Then there are the dolorous consequences of a potential collapse of the world's financial architecture. For decades now, Americans have enjoyed the advantages of being at the center of that system. The worldwide use of the dollar, and the stability of our economy, among other things, made it easier for us to run huge budget deficits, as we counted on foreigners to pick up the tab by buying dollar-denominated assets as a safe haven. Will this be possible in the future? Meanwhile, traditional foreign-policy challenges are multiplying. The threat from al Qaeda and Islamic terrorist affiliates has not been extinguished. Iran and North Korea are continuing on their bellicose paths, while Pakistan and Afghanistan are progressing smartly down the road to chaos. Russia's new militancy and China's seemingly relentless rise also give cause for concern. If America now tries to pull back from the world stage, it will leave a dangerous power vacuum. The stabilizing effects of our presence in Asia, our continuing commitment to Europe, and our position as defender of last resort for Middle East energy sources and supply lines could all be placed at risk. In such a scenario there are shades of the 1930s, when global trade and finance ground nearly to a halt, the peaceful democracies failed to cooperate, and aggressive powers led by the remorseless fanatics who rose up on the crest of economic disaster exploited their divisions. Today we run the risk that **rogue states may** choose to **become** ever more **reckless with** their **nuclear toys**, just at our moment of maximum vulnerability. The aftershocks of the financial crisis will almost certainly rock our principal strategic competitors even harder than they will rock us. The dramatic free fall of the Russian stock market has demonstrated the fragility of a state whose economic performance hinges on high oil prices, now driven down by the global slowdown. China is perhaps even more fragile, its economic growth depending heavily on foreign investment and access to foreign markets. Both will now be constricted, inflicting economic pain and perhaps even sparking unrest in a country where political legitimacy rests on progress in the long march to prosperity. None of this is good news if the authoritarian leaders of these countries seek to divert attention from internal travails with external adventures. As for our democratic friends, the present crisis comes when many European nations are struggling to deal with decades of anemic growth, sclerotic governance and an impending demographic crisis. Despite its past dynamism, Japan faces similar challenges. India is still in the early stages of its emergence as a world economic and geopolitical power. What does this all mean? There is no substitute for America on the world stage. The choice we have before us is between the potentially disastrous effects of disengagement and the stiff price tag of continued American leadership.

### MPX—Russian Aggression

#### Economic weakness encourages Russian aggression

Kudlow 14 (Larry, former economist @ US Treasury under President Reagan and Editor @ National Review, "Obama is Crushing the Reagan Link, and Putin Knows It," 7/18, http://www.nationalreview.com/node/383149/print)

Across his remarkably successful presidency, Ronald Reagan repeatedly made the link between the U.S. economy and U.S. international security and defense. He consistently argued that weakness at home leads to weakness abroad. Reagan was aiming at the dismal Carter years. But he understood for all times that economic strength at home sends a powerful signal for international security overseas. When Reagan went to Reykjavik to meet with Gorbachev, he believed the resurgent American economy would hammer the nails on the coffin of Soviet communism. And he explained to Gorbachev that if the Soviets didn’t come to the negotiating table with nuclear weapons, the U.S. would out-produce them on nukes and with technological superiority. Similarly, Reagan would not give up his vision for strategic missile defense. And in both cases — building nukes and SDI — Reagan knew the American economy had the resources capable of achieving these goals, while the sinking Soviet economy couldn’t match us. In the end, the Soviet system imploded in one of the greatest reversals in world history. Freedom won. Communism lost. Now, circumstances are somewhat different today. But the horrible Malaysia Airlines crash in Ukraine highlights some worrisome facts about American-Russian relations. Mitt Romney was right. Russia is our biggest threat. We know that the Malaysian plane was brought down by a ground-to-air missile fired from Russian-made SA-11 weapons run by pro-Russian Ukranian rebel terrorists. We also know that Russia is fighting a proxy war with the U.S. in Ukraine, and that Russian special forces are leading the terrorist movement in Ukraine. We can add to this the proxy war fought by Russia in the Middle East, with its main ally Iran, and the fact that Russia is engaging in state-sponsored terrorism. Whether President Obama understands all this, I don’t know. His policies have been alternatively passive (Libya, Egypt), incoherent (Russian reset), and feckless (Syria). But the fact that the current U.S. economic recovery is the slowest in post-WWII history — spanning 70 years — is surely a key factor in Vladimir Putin’s adventurism. This brings us back to Reagan’s link. Putin may recognize that Russia’s economy is a thin deck of cards. But he surely doesn’t fear the weak American economic position. Ditto for the broken economic dictatorships in North Korea, Iran, and Venezuela, and the rising economic dictatorship in China. They don’t fear us. In fact, America’s economic weakness is so worrying, one suspects our friends are losing respect for us too. Whether in Europe, Asia, Latin America, or Israel, our allies know that America has been the backstop for freedom. If not us, who? But can they say that now? As I testified this week before the congressional Joint Economic Committee, at 2.1 percent average real growth, the U.S. is lagging far behind the 4.1 percent average recovery pace of the post-war business cycles. The Reagan recovery averaged 5 percent annual growth at the same point as the Obama recovery. Obama’s stock market from the depth of the meltdown does beat Reagan’s market and the post-war average for equities. But here’s a very worrisome trend. Over the entire post-war period, average yearly growth has been 3.2 percent. And in the 1980s and ’90s, growth was 3.7 percent. Since 2001, however, under Republican and Democratic presidents and congresses, as the dollar lost over a third of its value growth has dropped to only 1.8 percent annually. Something has clearly gone very wrong.

# Aff Answers

## 2AC

### 2AC

#### 1 - Sales and profits plummeting – multiple alt causes

Aaron Mehta is Deputy Editor and Senior Pentagon Correspondent for Defense News, “Here are the biggest weaknesses in America’s defense sector”, Defense News, June 27th 2019, https://www.defensenews.com/pentagon/2019/06/27/here-are-the-biggest-weaknesses-in-americas-defense-sector

In addition, while the report found generally positive trends for the U.S. defense sector, it did warn that in certain areas, foreign weapon sales are decreasing. For instance, the U.S. saw its market share of global naval weapon exports go from 63 percent in 2007 to just 17 percent in 2017. And from 2008-2017, two reliable buyers of U.S. defense goods — Pakistan and South Korea — saw their U.S. procurement percentages drop. Pakistan went from 31 percent to 12 percent, while South Korea went from 78 percent to 53 percent. This is the first Industrial Capabilities report to be published since the October release of a White House-mandated study on the defense-industrial base. That study concluded, in part, that the government needs to increase use of its Defense Production Act Title III authorities, which allows the government to expend funds to support key production lines that might now otherwise survive. The latest report says that through March 2019, seven presidential determinations were issued to address “key industrial base shortfalls in lithium sea-water batteries, alane fuel cell technology, sonobuoys production, and critical chemicals production for missiles and munitions.” However, details of those agreements, such as how much funding might go toward fixing the issues, were pushed into a nonpublic appendix. Here are the biggest concerns, broken down by sector: Aircraft: The report cites long product and system development timelines, high costs for development and qualification, and limits on production as broad issues in the aircraft sector. Those issues are inherent in major defense programs, but the report also calls out the aging workforce and consolidation among the industrial base, which “has expanded into the sub-tiers of the supply chain, creating additional risks for single or sole source vendors.” As an example, the report notes there are only four suppliers with the ability to manufacture “large, complex, single-pour aluminum and magnesium sand castings” needed to make key parts of military aircraft. These four suppliers face “perpetual financial risk and experience bankruptcy threats” due to the insecure nature of Pentagon funding. “The single qualified source for the upper, intermediate, and sump housing for a heavy-lift platform for the Marines has experienced quality issues and recently went through bankruptcy proceedings,” the report adds. “Without a qualified or alternate qualified source for these castings, the program will face delays, impeding the U.S. ability to field heavy-lift support to Marine Corps expeditionary forces.” Finding qualified software engineers is another issue identified, with the report warning it is “increasingly difficult to hire skilled, cleared, and capable software engineers. As aircraft continue to increase in software complexity, it will become even more important for the sector to hire skilled software engineers.” Ground systems: The report says the Pentagon’s plan of incremental updates to existing systems rather than wholesale new designs has created “a generation of engineers and scientists that lack experience in conceiving, designing, and constructing new, technologically advanced combat vehicles.” But the same issues of consolidation and lack of budget stability that showed up in the aircraft sector impact the ground vehicle sector. “Legislation and DoD industrial policy requires DoD to manufacture all large-caliber gun barrels, howitzer barrels, and mortar tubes at one organic DoD arsenal,” the report cites as an example. “There is only one production line at the arsenal for all of these items, and policy modifications to meet demand and surge from overseas have led to a lack of capacity to meet current production requirements.” Shipbuilding sector: When it comes to maritime vessels, the “most significant risks found were a dependence on single and sole source suppliers, capacity shortfalls, a lack of competition, a lack of workforce skills, and unstable demand,” the report found. The lack of competition goes from the highest levels, where four companies control the seven shipyards building military vessels, to the lowest components, such as “high-voltage cable, propulsor raw material, valves, and fittings.” Workforce concerns also dominate the shipbuilding sector. The report cites statistics from the Department of Labor predicting that between 2018 and 2026, there will be a 6–17 percent decrease in U.S. jobs in occupations critical to Navy shipbuilding projects, “such as metal layout (ship-fitting), welding, and casting.” If that is not addressed, a lack of skilled workers “will significantly impact the shipbuilding industry’s ability to meet the Navy’s long-term demand.”

#### 2 - Defense Industry bubble will pop now

Mark Kolakowski, BA from The Wharton School of The University of Pennsylvania in Finance and his Bachelor's from Harvard College, “The Bubble in Defense Stocks: Why It May Burst Soon”, Updated June 25th 2019, https://www.investopedia.com/news/bubble-defense-stocks-why-it-may-burst-soon/

As technology stocks soared into the stratosphere, they became the darlings of the stock market. Shares of defense contractors, by contrast, have registered even greater gains over the past decade, but somehow managed to elude most investors' radar screens. The table below compares the performance of these sectors, as reported by Barron's. However, defense stocks may be speeding towards a hard landing, if not a thudding crash, according to Barron's. What Should Worry Investors Back in the 1990s, the U.S. Department of Defense (DoD) warned that the federal military budget would be declining for the foreseeable future, and encouraged mergers among big defense contractors, says Carter Copeland, an analyst with Melius Research, per Barron's. The DoD also began giving contractors large advance payments during the early stages of big contracts, thus reducing these companies' need for capital. Now those advance payments are due to decline significantly, which will increase defense contractors' up-front investments, and thus reduce their returns on invested capital (ROIC). Under the proposed new scheme, announced in August, these early "performance-based payments" can drop to as little as 50% of the contract cost, down from 80% currently, though they also may rise as high as 95%. Looking ahead, the bears also note that ballooning federal budget deficits will add to the pain for defense stocks, by forcing slower growth, if not outright cuts, in defense spending. These potential dangers for defense stocks are summarized in the table below. The most bearish observers of all may be concerned that defense stocks are in a bubble. A worrisome example from relatively recent market history is the dotcom bubble of the late 1990s, which ended in a crash that saw the tech-heavy Nasdaq Composite Index plummet by 78%. (For more, see also: Market Crashes: The Dotcom Crash.)

#### 3 - Trump bail-out solves

Joe Gould, Senior Reporter for Congress in the Defense News “Trump to use federal funds to prop up US bomb makers”, Defense News, January 2019, https://www.defensenews.com/congress/2019/01/16/trump-to-use-federal-funds-to-prop-up-us-bomb-makers/

WASHINGTON — U.S. President Donald Trump has approved direct federal investment for suppliers of American bomb parts and chemicals, part of as much as $250 million in direct investments by the Pentagon to fix supply chain vulnerabilities, Defense News has learned. The government funding for those suppliers, under the Defense Production Act, is meant to lift a subsector of the defense-industrial base that the Pentagon deems weak. It’s also a significant step in broader plans within the administration to remedy fragile markets and foreign dependencies among the military’s suppliers.

#### 4 - Arm Sales have 0 economic impact

Trevor Thrall s an associate professor in the Schar School of Policy and Government at George Mason University and a senior fellow at the Cato Institute. Jordan Cohen is a Ph.D. student in political science at George Mason University’s Schar School of Policy and Government, “The False Promises of Trump’s Arms Sales”, April 2019, https://www.cato.org/publications/commentary/false-promises-trumps-arms-sales

Finally, Trump’s claims about the economic benefits of arms sales ring the hollowest of all. For starters, not only won’t arms sales create a million new American jobs, but a great number of the jobs created by arms sales will go to citizens of the purchasing nations. As the Security Assistance Monitor report notes, the number of licenses granted to weapons manufacturers outside the United States doubled from 2017 to 2018. As a result, more than one-quarter of all U.S. arms “sales” last year were deals to permit the manufacturing of U.S.-designed weapons under license — that is, they created jobs in other nations instead of the United States. The report also finds that the Trump administration has sharply increased the number of deals in which foreign countries produce U.S.-developed weaponry under coproduction agreements, further reducing the number of U.S. jobs tied to arms sales. Weakening the economic rationale even further is the fact that in order to seal major deals, American defense contractors have to offer massive discounts, or offsets, to the purchasing nations in the form of coproduction arrangements or technology transfer. In 2014, for example, these offsets equaled roughly one-third of the value of total U.S. arms sales. These offsets mean not only that American arms sales are less profitable than they appear on paper, but also that they lead to fewer jobs created in the United States than many, including the president, would like to think. Trump’s big Saudi arms deal, for example, would likely lead to somewhere between 20,000 and 40,000 jobs, or less than two-tenths of one percent of the American labor market. The unpleasant truth is that the underwhelming economic benefits cannot justify Washington’s love of arms sales. Arms sales simply do not benefit the U.S. economy nearly as much as Trump likes to claim. Meanwhile, a large percentage of American arms sales goes to countries with horrible human rights records, to nations where arms are at risk of finding their way into the wrong hands, and to nations embroiled in dangerous and destabilizing conflicts. Given this, it is long past time to rethink American arms sales policy.

#### 5 - Turn – Arm sales are highly subsidized – absorbing HUGE chunks of government spending

Jonathan D. Caverley is Associate Professor of Strategy, United States Naval War College and Research Scientist, Massachusetts Institute of Technology, “AMERICA’S ARMS SALES POLICY: SECURITY ABROAD, NOT JOBS AT HOME”, April 6th 2018, https://warontherocks.com/2018/04/americas-arms-sales-policy-security-abroad-not-jobs-at-home/

Yet another reason that arms exports are an inefficient employment mechanism: Any additional U.S. market share is likely to be heavily subsidized. In 2016, the United States spent $10 billion buying weapons for other countries, roughly 10 percent of the entire global arms export market, equivalent to Singapore’s or Algeria’s defense budget. Moreover, over the past six years, the Defense Department waived another $16 billion in normally mandatory fees for Foreign Military Sales — including $3.5 billion for a $15 billion Saudi agreement — largely to close deals that may have gone to other suppliers. In short, when it comes to boosting the domestic economy, arms sales contain relatively little juice. And, as we shall see, it may not be worth the squeeze.

#### 6 - Freeing up that money to spend on other programs creates MORE jobs

William D. Hartung is the director of the Arms and Security Project at the Center for International Policy, “Pentagon Spending Is a Poor Job Creator”, The Nation, March 22nd 2019, https://www.thenation.com/article/pentagon-spending-is-a-poor-job-creator/

There they go again. Against strong evidence to the contrary, the Trump administration is touting weapons spending as the best way to bolster the American economy. Its persistence in doing so has more to do with an unwillingness to invest in other forms of job creation than with the economic benefits of Pentagon expenditures. These realities did not prevent Peter Navarro, President Trump’s chief adviser on trade and economic matters, from taking to the pages of The New York Times to praise arms production as a boon to employment in advance of Trump’s visit to an Army tank plant in Lima, Ohio. Navarro’s central claim was that the Trump military buildup will create “good manufacturing jobs and good wages.” There’s no question that spending $750 billion on the Pentagon and related agencies, as the administration has proposed to do in its new budget, will create some jobs. But Trump and Navarro fail to acknowledge that virtually any other use of the same funds would create more jobs. Studies by economists at the University of Massachusetts have demonstrated that spending on infrastructure, clean energy, or education would create one and one-half to two times as many jobs per dollar spent than throwing more money at the Pentagon. In fact, there is strong evidence to suggest that the military buildup of recent years has cost the US economy more jobs than it has created. A study by economist Heidi Garrett-Peltier for the Brown University Costs of War Project found that spending on health care, education, clean energy, and infrastructure instead of the devastating and unnecessary wars in Iraq and Afghanistan would have created a net increase of 1.3 million jobs in the United States. And, of course, that doesn’t factor in the human costs of the wars, which resulted in the deaths of thousands of US troops and hundreds of thousands of innocent civilians in war zones, and long-term injuries and disabilities to hundreds of thousands of US veterans, from lost limbs to traumatic brain injuries. That’s a high price to pay for sustaining some jobs in the weapons industry, particularly when there are better options for employing people. Meanwhile, Navarro’s argument that the Pentagon is a unique source of good manufacturing jobs is misleading at best. Much of the Pentagon’s budget is wasted on duplicative bureaucracy, cost overruns, and corporate excess. For example, a study by the Pentagon’s Defense Business Board determined that the Pentagon could save $125 billion over five years just by cutting bureaucratic overhead. And the Department of Defense employs over 600,000 private contractors, many of whom are redundant, performing tasks that overlap or that can be done more cheaply by civilian government personnel. Tens of billions could be saved by trimming this private-contractor work force to “only” half a million people. Last but not least, much of the money that goes to weapons makers like Lockheed Martin—which devoured $50 billion in taxpayer funding in one recent year—goes to highly paid executives, not assembly-line workers. To cite just one example, the CEO salaries of the top-six weapons makers total over $100 million. Add the salaries of other top executives and the hefty stipends for board members, and pretty soon you’re talking real money. None of these expenditures have anything to do with creating manufacturing jobs. Arms-related jobs are an important component of the US economy, but that’s because when it comes to public investment, they have been virtually the only game in town. Trump’s much-ballyhooed infrastructure plan has vanished into thin air. Investments in clean-energy technologies and practices have been under attack, despite the fact that they could create good jobs while addressing the greatest threat to the safety and security of humanity—climate change. Education and health are on the chopping block in Trump’s latest budget. Rather than making the US economy more dependent on war and preparations for war, we should be promoting a wide array of public investments in civilian projects that will generate millions of jobs while addressing areas of urgent national need. That means changing the retrograde politics of Washington. Initiatives like the Green New Deal hold out great promise for doing just that. The stranglehold of the arms industry on communities like Lima, Ohio, can only be changed by promoting a just transition to an economy that serves the needs of all rather than financing endless wars, padding the Pentagon bureaucracy, and boosting the bottom lines of weapons manufacturers.

#### 7 - Manufacturing not key to the economy

Ryan McMaken is a senior editor at the Mises Institute, degrees in economics and political science from the University of Colorado, “Manufacturing Jobs Are Overrated”, 3/13/2018, https://mises.org/wire/manufacturing-jobs-are-overrated

One of the reasons that Donald Trump gives for slapping new protectionist tariffs on steel and aluminum is that it will create manufacturing jobs, and by extension, greatly enhance income growth and standards of living in the United States. Trump is capitalizing on an enduring myth of American economic history in which it is believed that declines in manufacturing jobs are necessarily accompanied by drops in standards of living as well. What is often forgotten, however, is that manufacturing jobs, in proportion to the population overall, dropped significantly from the end of World War II through the 1950s and 1960s. And yet, during this time, real median incomes in the United States increased. Incomes stagnated somewhat during the 1970s, but then grew substantially again during the 1980s and 1990s. And, of course, during the 1980s and 1990s, manufacturing jobs continued a fast downward slide. In other words, it is not at all clear that falling manufacturing jobs lead to falling incomes or falling standards of living. Now, pointing out some correlations — or lack thereof — in the data doesn't prove that manufacturing jobs have no connection at all to incomes and wealth. To understand that, we need good economic theory. And, on this point sound economics is clear. Higher taxes — i.e., tariffs — are not the way to economic growth, even if they "protect" manufacturing jobs. But, when these economic arguments are made, proponents of higher tariffs say "we don't need your economics because history proves that manufacturing jobs are necessary for solid economic growth!" and then look to specific examples such as the withering of the rust belt, to make their point. But, when we look at a more complete picture, it appears that history "proves" no such thing.

#### 8 - Economy is resilient and slight bumps don’t escalate

Martin Wolf, 1-5-16 —Financial Times Martin, http://www.ft.com/intl/cms/s/0/db57a57e-b38b-11e5-b147-e5e5bba42e51.html#axzz3yIDas1ev, “Why global economic disaster is an unlikely event”

Measured at purchasing power parity, the world economy has grown in every year since 1946, even (albeit barely) in 2009, in the wake of the global financial crisis. The period between 1900 and 1946 was more unstable than the era of managed capitalism that succeeded it. Even so, the world economy grew in all but nine of those years. The innovation-driven economy that emerged in the late 18th and 19th centuries and spread across the globe in the 20th and 21st just grows. That is the most important fact about it. It does not grow across the world at all evenly — far from it. It does not share its benefits among people at all equally — again, far from it. But it grows. It grew last year. Much the most plausible assumption is that it will grow again this year. The world economy will not grow forever. But it will only stop when the economics of Thomas Malthus overwhelm those of Joseph Schumpeter — that is, when resource constraints offset innovation. We are certainly not there yet. Since 1900, the world’s output has grown at a rate of just over 3 per cent a year. Such is the power of compound interest that world output has expanded more than 30-fold over this period. Output grew relatively slowly in the early part of the 20th century and relatively fast between 1947 and the early 1970s. Intriguingly, it grew a bit faster under postwar Keynesian economics than under the conservative revival launched by Margaret Thatcher and Ronald Reagan in the 1980s. Now consider the pattern of volatility. The marked volatility between 1914 and 1919 was due to the first world war; that of the 1930s to the Great Depression; and that of the 1940s to the second world war. The instability of the 1970s and early 1980s was due to the oil shocks, triggered (or augmented) by war (the Yom Kippur war of 1973 and Iraq’s 1980 invasion of Iran). Inflationary financing of the Vietnam war generated the inflationary backdrop to the instability. Ultimately, that led to disinflation by the Federal Reserve, under Paul Volcker. The slowdown in 1990 and 1991 was again due to disinflation and the first Gulf war, which followed Saddam Hussein’s invasion of Kuwait. The slowdown in 1998 was triggered by the Asian financial crisis, that in 2001 by the bursting of a huge stock market bubble and that in 2009 by the western financial crisis. This picture of the past indicates the kind of events one should worry about. In brief, there seem to be three: wars; inflation shocks (perhaps linked to wars or jumps in commodity prices); and financial crises. These phenomena can be linked: wars will trigger inflation if their finance is by inflationary means. In this light, let us consider current risks. Some analysts have been convinced for years that high inflation must result from the expansion of central-bank balance sheets. They are wrong. It is quite possible for central banks to control the effects of their policies upon the expansion in credit and money. A second set of risks, again ceaselessly promoted, is that of financial crisis. The biggest risks seem to be in emerging economies. But these risks are likely to be contained or prove manageable at the global level. If the worst came to the worst, the results are likely to be more like those of 1998 than of 2009.

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### Ext #1-2 – Non Unique

#### Defense industry weak now

Reuben Gregg Brewer, Mutual Funds Analyst and Director of Research @ Value Line, “Why These Giant Defense Contractors Plummeted in October”, Nov 2018, https://www.fool.com/investing/2018/11/05/why-giant-defense-contractors-plummeted-october.aspx

A sharp downturn in the defense sector started in the first few days of October. Raytheon Company (NYSE:RTN), Northrop Grumman Corporation (NYSE:NOC), General Dynamics Corporation (NYSE:GD), and Lockheed Martin Corporation (NYSE:LMT) all fell roughly 15% in the month, according to data provided by S&P Global Market Intelligence. And, equally impressive, they all followed the same basic path lower through the month. It was ugly across the board. Earnings were involved to some degree, but not until the later days of October. For example, toward the end of the month, General Dynamics reported earnings that left investors less than inspired about its future, and shares fell on the news. Other industry participants reported in October, too. But the broad and coordinated industry declines appear to date back to a government pushback on costs that started in late September.

#### New steel tariffs coming

Laura He, CNN Contributor, “US imposes duties on some steel products from China and Mexico”, July 9th, https://www.cnn.com/2019/07/09/economy/us-steel-china-mexico/index.html

The United States is calling for new duties on some steel products from Mexico and China, saying exporters in those countries received unfair subsidies. The US Department of Commerce said Monday that exporters of fabricated structural steel in China benefited from subsidies ranging between about 30% and 177%, while those in Mexico received subsidies of up to 74%. The department said it will instruct US Customs and Border Protection to start collecting cash deposits from importers of the steel products from both countries. It noted that the decision is preliminary, and final determinations will be announced around November 19. In 2018, the US imported $897.5 million worth of fabricated structured steel from China, and $622.4 million worth from Mexico, according to the Commerce Department.

#### Kills the industry

Remy Nathan, vice president for International Affairs at the Aerospace Industries Association, The Hill, “Aerospace and defense industries need aluminum, steel and trade”, 3/1/2018, https://thehill.com/opinion/technology/376251-aerospace-and-defense-industries-needs-aluminum-steel-and-trade

President Trump has committed to bolstering economic security, improving the domestic business environment, and supercharging job growth in the United States. Unfortunately, the Commerce Department’s proposed tariffs or quotas to reinvigorate U.S. aluminum and steel production will harm the U.S. aerospace and defense industry and its 2.4 million employees. American’s aerospace and defense companies support efforts that enhance American economic security and maintain a strong U.S. manufacturing and defense industrial base, including the ability to domestically source critical metals such as aluminum and steel. However, according to a recent Department of Defense memo related to the proposed tariffs, the U.S. military requirements for steel and aluminum each represent only 3 percent of U.S. production. Since national security is not affected by our current acquisition of steel and aluminum, the administration should consider the broader economic impact of tariffs or quotas and take care not to inflict unintended consequences on users of these raw materials. Approximately 97 percent of jobs in the U.S. aluminum industry reside in post-primary production, value-added industries like aerospace and defense. We machine high-grade aluminum for aircraft skins, structures and fuel tanks. Steel is used in components and structures like landing gear where strength or part life is most important. This industry contributes to America’s economic and national security in part by leveraging access to a global supply chain to produce the best products at the best price for our customers in a highly competitive international market. We need global sources of aluminum and steel to remain competitive, and demand for these products is increasing. Quotas risk reducing our access to these basic materials. Tariffs do not address all the necessary market conditions, such as energy costs, for new U.S. aluminum production to remain viable. Aerospace and defense exports generated an $86 billion trade surplus in 2017, which was the largest surplus of any manufacturing sector, and supported high-skill, high-wage American jobs that pay 93 percent higher than the national average. Our industry ranks as the nation’s third largest gross exporter, producing 9 percent of all U.S. exports in goods. More than half of the value of our 2017 exports came from companies in the supply chain, including the smallest mom-and-pop shops, large first-tier suppliers and everything in between. In addition, the U.S. civil aviation and defense supply chain is intertwined, with many small and medium sized companies serving both commercial and military contracts. These commercial contracts are often higher volume and higher profit margin, and help underwrite innovation and business activity on the military side. When costs and disruptions can be tied to the aluminum and steel used for parts and components, both commercial and military, there is a cascading impact throughout the production process in both sectors.

### Ext #3 - Bailouts

#### Trump will absolutely do it

Joe Gould, Senior Reporter for Congress in the Defense News “Trump to use federal funds to prop up US bomb makers”, Defense News, January 2019, https://www.defensenews.com/congress/2019/01/16/trump-to-use-federal-funds-to-prop-up-us-bomb-makers/

Whereas President Barack Obama ramped up precision-guided munition production for the Air Force and allies to support suppliers, the Trump administration’s approach will likely be to directly incentivize U.S. firms to reintroduce U.S. sources of materials or products. Navarro lauded the president for accessing the tools at his disposal, reckoning Trump has the best appreciation of the defense-industrial base of any president since President Dwight D. Eisenhower. “This was in President Trump’s National Security Strategy, that economic security is national security,” Navarro said. “When we close the gap in munitions subsector, we’re not only improving capabilities for the war fighter but creating good jobs and good wages for the American economy.”

### Ext #4 – Not K2 Jobs

#### Arms sales not key to jobs

Jonathan D. Caverley is Associate Professor of Strategy, United States Naval War College and Research Scientist, Massachusetts Institute of Technology, “AMERICA’S ARMS SALES POLICY: SECURITY ABROAD, NOT JOBS AT HOME”, April 6th 2018, https://warontherocks.com/2018/04/americas-arms-sales-policy-security-abroad-not-jobs-at-home/

A Poor Job Creator Even if the Trump administration boosts sales against such headwinds, this will not create many additional jobs. Arms exports are a surprisingly inefficient means of employing people at home. Using census data, the Commerce Department estimates that a billion dollars of defense exports would “create or sustain” 3,918 jobs, considerably fewer than the 5,700 jobs per billion created by increased US exports more broadly. Doubling the United States’ annual arms exports to $40 billion, a highly unrealistic goal, would thus create fewer than 80,000 new jobs. There are other industries the United States can promote that will have larger effects on jobs. One reason defense exports appear to be inefficient employment generators is that states that spend their own money on buying American weapons also care about “jobs, jobs, jobs” for their own people, as well as supporting their own aspirational defense industries. Most countries require “offsets,” mandating that a percentage of any arms deal (often 50 to 100 percent) must be re-invested in the importing state’s economy. Between 2013 and 2015, these offsets, had the work been performed in the United States, would have created or sustained over 46,000 jobs. In publicizing a recent Saudi deal for 150 S-70 Black Hawk utility helicopters at roughly $6 billion, Lockheed Martin predicted that it would “support” 900 jobs. But half those jobs would be in Saudi Arabia. Yet another reason that arms exports are an inefficient employment mechanism: Any additional U.S. market share is likely to be heavily subsidized. In 2016, the United States spent $10 billion buying weapons for other countries, roughly 10 percent of the entire global arms export market, equivalent to Singapore’s or Algeria’s defense budget. Moreover, over the past six years, the Defense Department waived another $16 billion in normally mandatory fees for Foreign Military Sales — including $3.5 billion for a $15 billion Saudi agreement — largely to close deals that may have gone to other suppliers. In short, when it comes to boosting the domestic economy, arms sales contain relatively little juice. And, as we shall see, it may not be worth the squeeze.

#### All their numbers are suspect

Eugene Gholz, associate professor of political science at the University of Notre Dame, “Conventional Arms Transfers and US Economic Security”, Strategic Studies Quarterly, Spring 2019, https://www.airuniversity.af.edu/Portals/10/SSQ/documents/Volume-13\_Issue-1/Gholz.pdf

The defense industry has also generally resisted such government data collection efforts. As an alternative, the prime contractors could take the lead in actual data collection by voluntarily providing information on critical niches, DMSMS problems that could be addressed through arms sales, and prospective hiring by themselves and their subcontractors to meet production requirements for the arms sale, etc. However, in many cases, the prime contractors also do not know who their critical suppliers are because the first-tier subcontractors consider their lists of suppliers to be proprietary. Furthermore, there is an obvious incentive for prime contractors and their suppliers to exaggerate the potential benefits of the arms sale in their data collection efforts—not by committing fraud, but rather by taking an optimistic view every time they consider a range of possible outcomes. Optimistic assessments would likely compound through the supply chain—as each level of respondent reported an assessment at the high-end of the range reported at the lower level. That kind of bias was one of the fundamental problems faced by the economic planning ministry in the Soviet Union.29

### Ext #5-6 – Link Turn

#### Subsidizes for arms exports growing – trades off with other potential federal spending

A. TREVOR THRALL senior fellow for the Cato’s Institute’s Defense and Foreign Policy Department, and CAROLINE DORMINEY, policy analyst in defense and foreign policy studies at the Cato Institute, “Trump’s New Arms Sales Policy: What You Should Know”, May 2018, https://www.cato.org/blog/trumps-new-arms-sales-policy-what-you-should-know

Arms sales will now (likely) cost U.S. taxpayers more money It’s still unclear how this strategy will be implemented at the guidance and framework level, but there are several logical changes that could flow from a new emphasis on profit. This could include a transition from deals that use offsets as incentives to increased use of Foreign Military Financing and other incentives that would shift the burden of incentives from industry to the federal government. Caroline explained the implications of this change, writing, Currently, the majority of incentives to foreign buyers of American weapons come in the form of offsets. These agreements are made once the US government has cleared a sale and the company can liaise with whichever foreign government is purchasing the product. Offsets are meant to make the deals more attractive, and can include anything from co-production to technology transfer to Foreign Direct Investments. This takes a major cut out of any profit for the defense contractors, who shoulder most of the cost. In 2014 alone, contractors reported $20.5 billion in defense-related merchandise exports, with $13 billion worth of those sales including some kind of offset. The total value of reported offset agreements for that year was $7.7 billion — over one-third the value of total defense exports for that year. Obviously, this makes offsets an unattractive option for increasing economic security. The defense industry would prefer not to bear that burden—so then how will diplomats sweeten the deal for interested buyers while still protecting profit margins? … Foreign Military Financing…to the rescue? This type of financing comes directly out of the US federal budget—specifically out of the State Department’s portion. The final budget omnibus that was signed into law in March settled on $6.1 billion to give freely to other countries to purchase American weapons. That’s right—$6 billion of American taxpayer dollars this year alone will go towards subsidizing the arsenals of other nations so that they too can “Buy American.” Foreign Military Financing had, until now, been on the decline. From 1985 to 2015 the program decreased 50 percent in real terms. With this new economic security component to stated guidance on arms sales, there is a very real possibility that Foreign Military Financing could continue to rise.

### Ext #7 – Manufacturing Not K2 Economy

#### Service industry, not manufacturing, key to the economy

Patricia Buckley, PhD, Managing director for Economics with responsibility for contributing to Deloitte’s Eminence Practice, and Dr. Rumki Majumdar, Deloitte Services LP, is a manager and economist who contributes to thought leaderships on several contemporary economic issues“The services powerhouse: Increasingly vital to world economic growth”, July 2018, https://www2.deloitte.com/insights/us/en/economy/issues-by-the-numbers/trade-in-services-economy-growth.html

IT took centuries for the world’s economies to shift from agriculture to manufacturing, but the rise of the services sector is occurring more quickly. The world is in the midst of a radical shift, with the share of total output—world GDP—accounted for by services experiencing a sharp increase in almost all countries.1 Indeed, a few countries, such as India and Sri Lanka, have broken the historical convention by heading straight to services without developing a significant manufacturing sector at all.2 This growth in services has likely transformed not only the composition of the world’s economic production and employment, but potentially global trading patterns over the past few decades. Services dominate in output, value added, and employment The relationship between services growth and overall economic growth has become stronger in the past two decades as services’ average contribution to GDP and value added has increased. In 2015, services’ value added accounted for 74 percent of GDP in high-income countries, up from 69 percent in 1997. The contribution of services’ value added to GDP was higher in the United States than among its peer high-income nations. The increase in services’ share of GDP was even more prominent in low- and middle-income countries, where it jumped to 57 percent in 2015 from 48 percent in 1997 (figure 1). With services contributing more to output, the corresponding contributions of industry and agriculture to GDP declined; the share of manufacturing fell the most during this period.3

### Ext #8-9 – ! Defense

#### Econ decline doesn’t cause war

Drezner ’14 (Daniel Drezner, IR prof at Tufts, The System Worked: Global Economic Governance during the Great Recession, World Politics, Volume 66. Number 1, January 2014, pp. 123-164)

The final significant outcome addresses a dog that hasn't barked: the effect of the Great Recession on cross-border conflict and violence. During the initial stages of the crisis, multiple analysts asserted that the financial crisis would lead states to increase their use of force as a tool for staying in power.42 They voiced genuine concern that the global economic downturn would lead to an increase in conflict—whether through greater internal repression, diversionary wars, arms races, or a ratcheting up of great power conflict. Violence in the Middle East, border disputes in the South China Sea, and even the disruptions of the Occupy movement fueled impressions of a surge in global public disorder. The aggregate data suggest otherwise, however. The Institute for Economics and Peace has concluded that "the average level of peacefulness in 2012 is approximately the same as it was in 2007."43 Interstate violence in particular has declined since the start of the financial crisis, as have military expenditures in most sampled countries. Other studies confirm that the Great Recession has not triggered any increase in violent conflict, as Lotta Themner and Peter Wallensteen conclude: "[T]he pattern is one of relative stability when we consider the trend for the past five years."44 The secular decline in violence that started with the end of the Cold War has not been reversed. Rogers Brubaker observes that "the crisis has not to date generated the surge in protectionist nationalism or ethnic exclusion that might have been expected."43

### A2: Stock Market Internal

#### Stock Market resilient

Megan Henney, Fox Business, “Stock markets more resilient, compared to financial crisis days”, Oct 11th 2018, <https://www.foxbusiness.com/markets/despite-volatility-markets-more-resilient-today-than-10-years-ago>

Despite recent stock market volatility that pummeled the Dow Jones Industrial Average with an 832-point loss on Wednesday, some analysts have suggested Wall Street is stronger than it was in the days of the financial crisis. “I feel like there’s a lot more resilience,” Fundstrat Global Advisor co-founder Thomas Lee said on Thursday during an interview with FOX Business’ Liz Claman. “I think the individuals are acting like they did in the ‘90s. They did pullbacks like this, they want to put money to work.” That’s a big change from the Great Recession, when every time there was a market sell-off, people panicked and thought it meant the end of the bull market, Lee said.