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Special Issue on Defense Industries
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Introduction to the special issue on defense industries

The papers included in this special issue on defense industries provide ample evidence of the increasing sophistication in the application of economic theory to defense issues. The defense industry is no longer seen as a “special case” where general economic principles are of limited applicability in providing insights to firm and individual behavior and performance. The papers also illustrate the expanding range of issues in which economic analysis is providing valuable insights as well as increasingly accurate forecasts.

Perhaps best illustrating the wide range of defense industry issues is James Smirnoff and Michael Hicks' “The Impact of Economic Factors and Acquisition Reforms on the Cost of Weapon Systems,” where the authors evaluate how defense budget instability, consolidation of the defense industry, acquisition reform, war, and cost estimating error are related to cost overruns in major Department of Defense acquisition projects.

The analysis continues in Gunther Capelle-Blancard and Nicolas Coudere's “What Drives the Market Value of Firms in the Defense Industry? This paper investigates the relative importance of different types of news in driving significant stock price changes of firms in the defense industry. They find that stock price movements in the defense industry are in many ways influenced by the same events as in other industries (key role of formal earnings announcements or analysts' recommendations), but this industry also has some specific features, in particular the influence of geopolitical events and the relevance and frequency of bids and contracts on stock prices.

In “A Market Reaction to DOD Contract Delay — How Does the Market Reward Poor Performance?” Robert Darden, Sonia Leach and Jeffrey Smith find that civilian development projects occur faster than the projects for the Department of Defense (DoD). Their results show positive significant wealth for shareholders at the announcement of a DoD delay, suggesting an insensitivity toward production delays.

European cases provide an interesting contrast. In “Defense and Firm Financial Structure in France” Jean Belin and Marianne Guille find that European defense firms are progressively being privatized and the recourse to private finance in the defense sector is increasing. Their results provide some support for the hypothesis of a relationship between defense dependence and financial structure.

Of course defense economics is not just confined to industrial issues. In recent years an expanding literature has applied economic analysis to a variety of defense-related issues. In “An Empirical Analysis of the Factors Impacting Discount Rates: Evidence from the Marine Corps,” Nayantara Hensel and Martin Deichert examine Marine Crops officers and enlisted personnel separating f enlisted personnel separating fn annuity payment or lump-sum payment. They find that across all demographic factors, enlisted personnel had statistically higher average discount rates than officers. From this they conclude many of their findings can be generalized to the civilian sector to assist in formulation of savings/retirement policies.

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One comes away from these papers with an appreciation of significant contribution that economic analysis can play in providing valuable insight into some of the most important policy issues facing governments as they attempt to achieve greater levels of security during periods of increasing budgetary constraint.

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