

Death of the Defense Industry

Even in Wartime, The Military-Industrial Complex Is in Decline

By Stan Crock

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While hardly anyone was watching, the infamous American military-industrial complex died.

Sure, defense spending is soaring, and GIs are camping out in globe-girdling operations. But don't let that fool you. Most of the surge in spending is aimed at operations and maintenance and improving our troops' quality of life -- not at purchasing planes, ships and tanks. A close look reveals that America's arms merchants are in a long-term downward spiral. Aerospace-defense employment is at its lowest level in 50 years. The number of major weapons programs has shriveled to a handful. Though the nuclear threat from North Korea and Iran may be rising, weapons procurement budgets, adjusting for inflation, are half their Reagan-era highs. And the collapse of the Soviet Union, technological advances, and what passes for fiscal responsibility in Washington conspire against a future industry revival.

The industry's swoon can't be reconciled with the conventional wisdom that the military-industrial complex -- the Iron Triangle of Pentagon brass, defense contractors and key congressional committees -- can pursue its interests impervious to external forces. To be sure, Lockheed Martin and General Dynamics won't disappear. But the notion of an all-powerful military-industrial complex is a vestige of the Cold War.

That will cheer liberal critics of weapons makers and concern hawks who want an even stronger defense. But whatever one's politics, it's clear that the nation needs a new paradigm to organize the defense industrial base to ensure that it can provide whatever arms we do need in a still-fractious world. We are witnessing a qualitative and quantitative decline in the defense workforce that will produce more of the delays, budget-busting overruns and technical glitches that are becoming chronic in arms programs. Over time, the technological lead Uncle Sam demonstrated in Afghanistan and Iraq will erode. Without an overhaul of the defense-industry model, the United States won't be able to preserve its status as a military hyperpower.

A few numbers tell the story. As defense concerns consolidated in the 1990s, the aerospace-defense industry workforce shriveled from 1.3 million in 1989 to 689,000 at the end of 2002 -- roughly the number employed in 1953, according to the Aerospace Industries Association. The industry has handed pink slips to 10 percent of its workers

since the Sept. 11 terrorist attacks, and more shrinkage is likely. Between 2002 and 2008, nearly half of the industry's workforce -- what remains of the Apollo program generation -- will be eligible for retirement. That could mean the loss of unparalleled skill and experience -- and potentially America's technological edge.

Making matters worse, universities are churning out few replacements. There's little interest on college campuses in working for companies with the hierarchical, militaristic culture of the defense industry -- especially since they offer little more job security than a dot-com company. Without a captivating vision such as putting a man on the moon, the number of graduate aerospace engineering degrees awarded is sinking as techies have sought work in the biotech or computer games industries and other more alluring businesses. Between 1999 and 2000, the number of aeronautical engineering degrees tumbled from 4,269 to 2,042, according to the National Science Foundation.

The budget picture is similarly bleak. When Defense Secretary Donald H. Rumsfeld unveiled a \$38 billion jump in the 2002 Pentagon budget in mid-2001, it looked like salvation for the military-industrial complex. Until you read the fine print. None of that increase went to buy big weapons. Procurement, which had shrunk 30 percent since the end of the Cold War, dropped another \$1 billion. The skyrocketing budget financed such items as pay, medical care and mundane expenses for operations and maintenance.

In 2003, spending on new weaponry managed to bounce back a bit, rising by about \$9 billion to \$70 billion. A chunk of that, however, merely reflects more realistic costs for existing programs whose costs had been low-balled. But the boomlet may be over. The 2004 budget calls for just a 4 percent rise in weapons procurement.

To cope with a growing cash crunch for the Defense Department, a broad swath of programs is under fire. The Pentagon has killed the Army's Crusader howitzer and a Navy sea-based missile-defense system that Star Warriors had high hopes for. Cuts in high-profile programs such as the Air Force's F-22 Raptor and the Army's Stryker armored vehicle are likely. Slashing these programs might be wise, as the projected numbers of planes and tanks are excessive, but it's a sign of the dollars dilemma that the decisions are driven more by budgetary constraints than strategic requirements. Most startling, beginning with the first Bush administration, more than 100 big programs have stopped production, according to Gordon Adams, a George Washington University professor who oversaw national security accounts at the Office of Management and Budget in the Clinton administration. Now, the Air Force has just one major weapon system on the drawing board: the Joint Strike Fighter. The Army also has only one: the Future Combat System.

None of this should be a surprise. Without the Soviet threat, the number of people in uniform has shrunk from 2.2 million in 1989 to 1.4 million today. Washington doesn't need as large an industry to support them. There is no threat on the horizon -- not even the war on terrorism -- that would alter the equation. Fighting terrorism can be done far more cheaply than preparing to fend off a Soviet attack through the Fulda Gap. And no peer competitor is emerging. America spends about as much on defense as the next dozen

or so countries combined, indicating that neither China nor any other nation plans to try to match our conventional forces by building a large air force, navy or army.

Meanwhile, advances in technology suggest that future U.S. military spending can afford to take a nosedive. When a \$25,000 kit can turn a dumb bomb into a smart bomb, generals ask how many targets one sortie can hit, not how many sorties it takes to hit one target. With precision munitions, we don't need as many \$80 million fighters or \$2 billion bombers to achieve a given goal.

The money for big weapons systems wouldn't be available, anyway. Fiscal responsibility became more than rhetoric when the federal government actually achieved a budget surplus in the Clinton years. The political booby trap for defense companies is competition with ballooning Social Security and Medicare expenses for federal discretionary funds. Once the Bush administration's tax cuts kick in and baby boomers retire, there will be intense pressure on that pot of cash. In the guns vs. geezers fight, the Defense Department is the likely loser.

All of this suggests that the conventional wisdom about the clout of the defense industry is no longer valid, if it ever was. Thoughtful analysts such as George Washington's Adams have long believed that the Iron Triangle determined defense budgets and policy according to its own interests, with outsiders having little influence. After nearly five years at OMB, Adams changed his view. He now argues (in an unpublished paper for the Ford Foundation) that defense policy is explained by a complex combination of factors: policy and strategy (an assessment of the threats the nation faces); bureaucratic imperatives (the military services care more about their assignments than buying weapons); macro politics (as Republicans and Democrats vie over who is more patriotic); and micro politics (as lawmakers try to serve their constituents' needs). The formulation of national security strategy thus is far more complicated than the conventional view that defense contractors simply call the shots. This view also explains the industry's decline.

More than the analytical tools we use to look at the industry needs to be overhauled, though. Policymakers must rethink the industry's structure. Before World War II, there was no military-industrial complex. The nation relied on government facilities to make its arms. Without a large standing army, there was no need for a large supporting industry. One emerged only after the onset of the Cold War and the prospect of a permanent national war footing. That helps explain why President Eisenhower didn't coin the term "military-industrial complex" until his 1961 farewell address to the nation.

Now that era -- and its defense largess -- are gone. Aside from supplemental appropriations that finance such things as fuel, bullets and calling up reserves for combat, the defense budget is roughly 3 percent of gross domestic product, about half the typical low point during the Cold War. There is insufficient demand to sustain the five-decades-old defense industry. What is needed now is a streamlined industry -- one that eliminates duplicative facilities that the decreased demand can no longer support.

Consulting firm Booz Allen Hamilton estimates that the industry is operating at just 50 percent of capacity, with shipbuilding hovering at around 20 percent. The government wastes billions bankrolling the overhead for all these underused facilities. The Pentagon should grant monopolies for various weapons systems, thus forcing other firms to close overlapping capacity and drop costly bidding procedures. The Pentagon could also guarantee major defense contractors revenues to sustain basic manpower and infrastructure. While this scheme would not provide an exciting vision to lure engineering grads, it could attract those wary of working for the next dot.bombs. This blueprint also would make defense contractors more stable financially.

Would taxpayers lose the benefits of competition? If this were a normal market, it would be a problem. But there is precious little competition today. General Dynamics and Northrop Grumman often split shipbuilding contracts 50-50. Northrop Grumman is the only maker of submarines. Lockheed Martin soon will be the only producer of fighters. Raytheon has a monopoly on tactical missiles, while Lockheed Martin has one on anti-submarine weapons.

Unlike an individual consumer, the Pentagon has the clout to protect itself -- and already limits profits on many contracts. It can funnel research and development funds to smaller suppliers to preserve some benefits of competition. The smaller fry can be the founts of innovation, and price competition among component makers can rein in costs.

Without a seismic change, the industry is headed for a death spiral. We need to change the way we perceive the military-industrial complex and the way it's organized. The ghost of its past should not continue to haunt us. If we don't overhaul the industry, more than just the analytical notion of a military-industrial complex -- indeed, America's very security -- could rest in peace

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