The Changing Defense Industrial Base

Edward F. Greer

Introduction

The vast decreases in United States defense budgets over the past 10 years have necessitated a fundamental change in the defense industrial base. The Cold War defense industrial base had cyclical peaks and valleys, most acutely sensitive to the Korean and Vietnam conflicts, but these fluctuations should not be compared to the current valley of drastic downsizing due to the fall of the Soviet Union and end of the Cold War. In 1994, C. Michael Armstrong, Chairman of the Board and CEO of Hughes Aircraft Company, noted

After World War II, we saw a demobilization of the military every bit as rapid as the defense industry surge that propelled the allies to victory. From 1946 on, national defense spending went into a nose-dive, a plunge that did not stop until the Korean War. A generation later, after Vietnam, we again allowed our investment in national defense to lag, this time, even lower than the pre-Korean level. Today, we are below that pre-Korean level – below the post-Vietnam level – and by 1999, defense spending as a percentage of gross domestic product will be lower than at any point since Pearl Harbor.1

The defense industry since World War II

President Dwight Eisenhower, when labeling the defense business as the military-industrial complex, characterized the entire industry as a network of corporations doing defense work and only defense work. The focus of their work was technology-driven. The enemy, the Soviet
Union, was known, almost tangible, and with the horrors of World War II still fresh on the American mind, money was spent on perceived technological needs to meet that enemy. The emphasis was on performance and meeting the acquisition schedule.

With large capital investments by the government generating substantial industrial profits, many prime defense contractors used these profits for long range research and development (R&D). The services wanted weapon systems performance, and R&D was a proven path to this performance. Nonetheless, Congress and the Pentagon did not want a free-for-all occurring with little guidance, so strict rules and regulations were enacted. Over the years of the Cold War, these regulations grew into strict military specifications and standards that substantially increased the cost of the weapon systems. To profit in the seemingly dense jungle of oversight, cost-plus contracts (contractors were paid for all work) became the norm. Ultimately, most of these companies were handsomely rewarded for pushing the technological edge.

There are major differences between the early post-World War II defense industries and the present ones. Thousands of commercial factories had been converted to produce massive amounts of relatively simple military hardware during World War II. In the four years of American involvement in World War II, U.S. firms produced more than 295,000 aircraft, 86,000 tanks, more than 1200 naval vessels, and well over 40 billion rounds of ammunition.² People sacrificed daily amenities and luxuries, and underwent severe restrictions and rationing for the good of the nation. At the end of World War II factories easily transitioned back to commercial production. A huge demand for products by a growing population looking for employment, goods, and security was prevalent. John Brinkerhoff, a defense analyst, noted, "During World War II and also the Cold War we simply overwhelmed the enemy with materiel."³ But, no sacrifices by the American populace such as gas rationing or mothers manning the factories as occurred in WWII were asked for or needed to fight the Cold War. No great demand for consumer goods followed the Cold War's demise. In addition, the precipitous fall of the post-Cold War defense budget could not and cannot support the same number of Cold War contractors, the same anti-marketplace business practices, and the same share-of-the-pie-for-everyone attitude prevalent during the Cold War.

Between 1986 and 1997, defense spending after inflation, in real dollar terms, will have declined over 50 per cent. Brinkerhoff stated that "compared to the traditional kind of industrial preparedness that