

# WebMemo



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## Five Steps to Save America's Defense Industrial Base

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The U.S. defense base is on the verge of a crisis—losing the design engineering and industrial capacity to affordably produce the cutting-edge military systems that once gave the American military an unassailable advantage. The reason for this is simple: The free market works. When there is no competitive market for goods and services, the industries that produce them dry up and blow away. The Pentagon has been under-funding procurement by about \$50 billion a year. That, however, is only part of the problem. The U.S. government unnecessarily hamstring the ability of American defense companies to compete overseas. Unleashing the capacity to compete will help save our defense industrial base, build the capacity of allies, and strengthen U.S. ability to leverage technological innovation. Both the President and the Congress ought to put competitiveness at the top of the agenda.

**The World Has Changed.** During World War II, America was called the “arsenal of democracy” for a reason. The U.S. had the planet’s most productive base, and it harnessed 40 percent of the economy to produce war goods and services. When President Dwight Eisenhower spoke about the “military-industrial complex” in 1961, the defense budget comprised half the federal budget. Today, the U.S. spends less than 4 percent of gross domestic product (GDP) on the “core” defense budget, and the Pentagon accounts for less than one-fifth of the federal budget. Concomitantly, the defense industrial base has shrunk because of more modest demands.

The U.S. no longer has a “just-in-time” industrial base that can crank out weapons when wars start.

Unless there is an ongoing acquisition program, the ability to build something in the private sector basically starts from scratch. This is a problem when it comes to sophisticated weapons. Design engineers, advanced manufacturing workers, and state-of-the-art industrial facilities do not sit around waiting for work.

Arguments that the military just does not need these advanced weapons do not cut it, either. America’s competitors around the world are buying, making, and marketing cutting-edge weapons. They are not doing that for fun.

**A Real “Buy American” Agenda.** Congress and the President can take several steps right now to stem the impending industrial-base collapse.

**1. Put Export Control reforms on the fast track.** Export Controls are meant to prevent sensitive technologies from falling into the wrong hands—they are not supposed to put U.S. industries at a competitive disadvantage. There are plenty of signs that the regimes in place are as doing as much of the latter as the former. When the government prohibits a manufacturer from selling a product that is available from other countries on the open market, there is something wrong. The Administration has

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proposed a number of reforms including consolidating control lists and periodic reviews to “delist” items that no longer need to be restricted. Congress and the White House need to make this reform effort a higher priority.

**2. Kill the Jones Act and other “Buy American” provisions.** These laws are often trumpeted as a means to “protect” U.S. industries and ensure that the U.S. has secure sources for critical national security needs. Usually, the opposite happens: Industries wither and costs skyrocket. That was certainly the case with The Merchant Marine Act of 1920 (the Jones Act), which was meant to save the merchant marine industry by requiring ships that plied American waters be built in the United States and manned by American crews. In the first 76 years following the act, more than 60 U.S. shipyards had gone out of business, eliminating 200,000 jobs. If the intent of the Jones Act was to save U.S. jobs, it failed. Open competition makes the U.S. stronger.

**3. Emphasize cutting-edge defense exports to real friends and allies.** Countries like Israel, Japan, and Australia should be fighting for a space in line to buy F-22 fighter aircraft. India and others should be begging to buy the F-35 fighter. Not only would their purchases make for more capable allies, it would help drop the per-unit cost for the U.S. military. This Administration ought to be cheerleading for these deals—not short-stopping one program and foot-dragging on the other.

**4. Revitalize, broaden, and internationalize the Safety Act.** Passed in the wake of 9/11, this legislation provides liability protection for “proven” counterterrorism technologies, thus encouraging innovation. Congress should broaden the program to include other security technology needs, like cybersecurity. In addition, Congress should establish a framework for reciprocity to encourage other allied countries that establish comparable regimes. This would help to promote global innovation and open new markets in security technologies.

**5. Pave the way for a defense nanotechnology industry.** One of the most important advantages the U.S. could have is to be the world leader in nanotechnology manufacturing. “Nano” refers to scale—building materials and systems on the molecular and

atomic levels. Nanotechnologies have almost infinite military applications for some of the most important challenges—from lightweight, super-strong materials to solving power generation problems. The U.S. government has a lot of nano-research. Now is the time to start thinking about an industrial base to operationalize what we are learning.

In high-tech manufacturing, the main cost issue is tech investment, and decisions in this sector are sensitive to tax and regulatory policy. For starters, if federal policymakers lowered the cost of capital (reducing taxes on capital gains and dividends, as well as corporate income taxes), that would stimulate capital investment in a variety of promising technologies, particularly nanotechnology. Furthermore, the Pentagon, in coordination with the National Institute of Standards of Technology, should pivot right now to help foster the development of nanotechnology manufacturing infrastructure. That way, the Defense Department can incorporate innovations into its equipment quickly and cheaply as soon as the innovations emerge, and defense industries can develop new products to export.

The Pentagon has done this before. In the 1980s, the Defense Advanced Research Projects Agency helped set up Sematech, a consortium of U.S. semiconductor companies to resolve common manufacturing challenges. The military should do the same for nanotechnology manufacturing. Funds should be reprioritized from other research and development efforts to support this mission. A lead in nanotechnology manufacturing could help cement America’s lead in defense exports and providing cutting-edge technology to the U.S. warfighter for another generation.

**Competition Builds Security.** By encouraging more industrial competition, Washington can play a more positive role in revitalizing the U.S. defense industrial base; boosting jobs and exports; building the capacity of friends and allies; lowering costs for Pentagon acquisition; and ensuring the nation becomes the arsenal of democracy again. That is an agenda worth fighting for.

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