

War Profiteers and the Demise of the US Military-Industrial Complex

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Within the vast bureaucratic sprawl of the Pentagon there is a group in charge of monitoring the general state of the military-industrial complex and its continued ability to fulfill the requirements of the national defense strategy. Office for acquisition and sustainment and office for industrial policy spends some \$100,000 a year producing an Annual Report to Congress. [It is available to the general public](#). It is even available to the general public in Russia, and Russian experts had a really good time poring over it.

In fact, it filled them with optimism. You see, Russia wants peace but the US seems to want war and keeps making threatening gestures against a longish list of countries that refuse to do its bidding or simply don't share its "universal values." But now it turns out that threats (and the increasingly toothless economic sanctions) are pretty much all that the US is still capable of dishing out—this in spite of absolutely astronomical levels of defense spending. Let's see what the US military-industrial complex looks like through a Russian lens.

It is important to note that the report's authors were not aiming to force legislators to finance some specific project. This makes it more valuable than numerous other sources, whose authors' main objective was to belly up to the federal feeding trough, and which therefore tend to be light on facts and heavy on hype. No doubt, politics still played a part in how various details are portrayed, but there seems to be a limit to the number of problems its authors can airbrush out of the picture and still do a reasonable job in analyzing the situation and in formulating their recommendations.

What knocked Russian analysis over with a feather is the fact that these INDPOL experts (who, like the rest of the US DOD, love acronyms) evaluate the US military-industrial complex from a... market-based perspective! You see, the Russian military-industrial complex is fully owned by the Russian government and works exclusively in its interests; anything else would be considered treason. But the US military-industrial complex is evaluated based on its... profitability! According to INDPOL, it must not only produce products for the military but also acquire market share in the global weapons trade and, perhaps most importantly, maximize profitability for private investors. By this standard, it is doing well: for 2017 the gross margin (EBITDA) for US defense contractors ranged from 15 to 17%, and some subcontractors—Transdigm, for example—managed to deliver no less than 42-45%. "Ah!" cry the Russian experts, "We've found the problem! The Americans have legalized [war profiteering](#)!" (This, by the way, is but one of many instances of something called systemic corruption, which is rife in the US.)

It would be one thing if each defense contractor simply took its cut off the top, but instead there is an entire food chain of defense contractors, all of which are legally required, no less,

to maximize profits for their shareholders. More than 28,000 companies are involved, but the actual first-tier defense contractors with which the Pentagon places 2/3 of all defense contracts are just the Big Six: Lockheed Martin, Northrop Grumman, Raytheon, General Dynamics, BAE Systems and Boeing. All the other companies are organized into a pyramid of subcontractors with five levels of hierarchy, and at each level they do their best to milk the tier above them.

The insistence on market-based methods and the requirement of maximizing profitability turns out to be incompatible with defense spending on a very basic level: defense spending is intermittent and cyclical, with long fallow intervals between major orders. This has forced even the Big Six to make cuts to their defense-directed departments in favor of expanding civilian production. Also, in spite of the huge size of the US defense budget, it is of finite size (there being just one planet to blow up), as is the global weapons market. Since, in a market economy, every company faces the choice of grow or get bought out, this has precipitated scores of mergers and acquisitions, resulting in a highly consolidated marketplace with a few major players in each space.

As a result, in most spaces, of which the report's authors discuss 17, including the Navy, land forces, air force, electronics, nuclear weapons, space technology and so on, at least a third of the time the Pentagon has a choice of exactly one contractor for any given contract, causing quality and timeliness to suffer and driving up prices.

In a number of cases, in spite of its industrial and financial might, the Pentagon has encountered insoluble problems. Specifically, it turns out that the US has only one shipyard left that is capable of building nuclear aircraft carriers (at all, that is; the USS Gerald Ford is not exactly a success). That is Northrop Grumman Newport News Shipbuilding in Newport, Virginia. In theory, it could work on three ships in parallel, but two of the slips are permanently occupied by existing aircraft carriers that require maintenance. This is not a unique case: the number of shipyards capable of building nuclear submarines, destroyers and other types of vessels is also exactly one. Thus, in case of a protracted conflict with a serious adversary in which a significant portion of the US Navy has been sunk, ships will be impossible to replace within any reasonable amount of time.

The situation is somewhat better with regard to aircraft manufacturing. The plants that exist can produce 40 planes a month and could produce 130 a month if pressed. On the other hand, the situation with tanks and artillery is absolutely dismal. According to this report, the US has completely lost the competency for building the new generation of tanks. It is no longer even a question of missing plant and equipment; in the US, a second generation of engineers who have never designed a tank is currently going into retirement. Their replacements have no one to learn from and only know about modern tanks from movies and video games. As far as artillery, there is just one remaining production line in the US that can produce barrels larger than 40mm; it is fully booked up and would be unable to ramp up production in case of war. The contractor is unwilling to expand production without the Pentagon guaranteeing at least 45% utilization, since that would be unprofitable.

The situation is similar for the entire list of areas; it is better for dual-use technologies that can be sourced from civilian companies and significantly worse for highly specialized ones. Unit cost for every type of military equipment goes up year after year while the volumes being acquired continuously trend lower—sometimes all the way to zero. Over the past 15 years the US hasn't acquired a single new tank. They keep modernizing the old ones, but at

a rate that's no higher than 100 a year.

Because of all these tendencies and trends, the defense industry continues to lose not only qualified personnel but also the very ability to perform the work. INDPOL experts estimate that the deficit in machine tools has reached 27%. Over the past quarter-century the US has stopped manufacturing a wide variety of manufacturing equipment. Only half of these tools can be imported from allies or friendly nations; for the rest, there is just one source: China. They analyzed the supply chains for 600 of the most important types of weapons and found that a third of them have breaks in them while another third have completely broken down. In the Pentagon's five-tier subcontractor pyramid, component manufacturers are almost always relegated to the bottommost tier, and the notices they issue when they terminate production or shut down completely tend to drown in the Pentagon's bureaucratic swamp.

The end result of all this is that theoretically the Pentagon is still capable of doing small production runs of weapons to compensate for ongoing losses in localized, low-intensity conflicts during a general time of peace, but even today this is at the extreme end of its capabilities. In case of a serious conflict with any well-armed nation, all it will be able to rely on is the existing stockpile of ordnance and spare parts, which will be quickly depleted.

A similar situation prevails in the area of rare earth elements and other materials for producing electronics. At the moment, the accumulated stockpile of these supplies needed for producing missiles and space technology—most importantly, satellites—is sufficient for five years at the current rate of use.

The report specifically calls out the dire situation in the area of strategic nuclear weapons. Almost all the technology for communications, targeting, trajectory calculations and arming of the ICBM warheads was developed in the 1960s and 70s. To this day, data is loaded from 5-inch floppy diskettes, which were last mass-produced 15 years ago. There are no replacements for them and the people who designed them are busy pushing up daisies. The choice is between buying tiny production runs of all the consumables at an extravagant expense and developing from scratch the entire land-based strategic triad component at the cost of three annual Pentagon budgets.

There are lots of specific problems in each area described in the report, but the main one is loss of competence among technical and engineering staff caused by a low level of orders for replacements or for new product development. The situation is such that promising new theoretical developments coming out of research centers such as DARPA cannot be realized given the present set of technical competencies. For a number of key specializations there are fewer than three dozen trained, experienced specialists.

This situation is expected to continue to deteriorate, with the number of personnel employed in the defense sector declining 11-16% over the next decade, mainly due to a shortage of young candidates qualified to replace those who are retiring. A specific example: development work on the F-35 is nearing completion and there won't be a need to develop a new jet fighter until 2035-2040; in the meantime, the personnel who were involved in its development will be idled and their level of competence will deteriorate.

Although at the moment the US still leads the world in defense spending (\$610 billion of \$1.7 trillion in 2017, which is roughly 36% of all the military spending on the planet) the US economy is no longer able to support the entire technology pyramid even in a time of relative peace and prosperity. On paper the US still looks like a leader in military technology,

but the foundations of its military supremacy have eroded. Results of this are plainly visible:

- The US threatened North Korea with military action but was then forced to back off because it has no ability to fight a war against it.
- The US threatened Iran with military action but was then forced to back off because it has no ability to fight a war against it.
- The US lost the war in Afghanistan to the Taliban, and once the longest military conflict in US history is finally over the political situation there will return to status quo ante with the Taliban in charge and Islamic terrorist training camps back in operation.
- US proxies (Saudi Arabia, mostly) fighting in Yemen have produced a humanitarian disaster but have been unable to prevail militarily.
- US actions in Syria have led to a consolidation of power and territory by the Syrian government and newly dominant regional position for Russia, Iran and Turkey.
- The second-largest NATO power Turkey has purchased Russian S-400 air defense systems. The US alternative is the Patriot system, which is twice as expensive and doesn't really work.

All of this points to the fact that the US is no longer much a military power at all. This is good news for at least the following four reasons.

First, the US is by far the most belligerent country on Earth, having invaded scores of nations and continuing to occupy many of them. The fact that it can't fight any more means that opportunities for peace are bound to increase.

Second, once the news sinks in that the Pentagon is nothing more than a flush toilet for public funds its funding will be cut off and the population of the US might see the money that is currently fattening up war profiteers being spent on some roads and bridges, although it's looking far more likely that it will all go into paying interest expense on federal debt (while supplies last).

Third, US politicians will lose the ability to keep the populace in a state of permanent anxiety about "national security." In fact, the US has "natural security"—two oceans—and doesn't need much national defense at all (provided it keeps to itself and doesn't try to make trouble for others). The Canadians aren't going to invade, and while the southern border does need some guarding, that can be taken care of at the state/county level by some good ol' boys using weapons and ammo they already happen to have on hand. Once this \$1.7 trillion "national defense" monkey is off their backs, ordinary American citizens will be able to work less, play more and feel less aggressive, anxious, depressed and paranoid.

Last but not least, it will be wonderful to see the war profiteers reduced to scraping under sofa cushions for loose change. All that the US military has been able to produce for a long time now is misery, the technical term for which is "humanitarian disaster." Look at the aftermath of US military involvement in Serbia/Kosovo, Afghanistan, Iraq, Libya, Syria and Yemen, and what do you see? You see misery—both for the locals and for US citizens who lost their family members, had their limbs blown off, or are now suffering from PTSD or brain injury. It would be only fair if that misery were to circle back to those who had profited from it.

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