AMERICAN ECONOMIC LIBERTIES PROJECT

Courage to Learn: Defense and Aerospace

Over the past 30 years, the American defense and aerospace sectors were concentrated in the hands of a few companies. This began at the end of the Cold War, when the Clinton administration oversaw a dramatic consolidation of prime contractors. Fifty-one aerospace and electronics companies combined into just five, all of whom are also massive defense contractors. This concentrated power inflates prices, promotes offshoring, increases supply chain risk, and reduces innovation. Recent administrations failed to improve upon this status quo.

Key Facts

- The entire nuclear triad is now dependent upon a single company, Northrup Grumman, that is responsible for the new ICBMs, the B-21 bomber, and the motors that launch nuclear missiles from ballistic submarines.
- After a series of mergers, L3 and Harris completed the consolidation of the defense communications industry by merging to create the sixth largest defense contracting firm.
- The top 10 aerospace and defense companies accounted for 86 percent of industry revenues in 2016.
- From 2008 to 2018, the average cost of a Pentagon weapons system jumped by 13 percent, without accounting for inflation.
- By the early years of the Trump administration, nearly two thirds of DoD major weapons system contracts had only one major bidder.
- Between 2008 and 2017, the competition rate for all DoD contract obligations, not just major weapon systems, fell from 62.6 percent to 55.4 percent.
- Defense contractors with monopoly positions, like Transdigm, achieve profit margins of 54.5 percent.

Recommended Policies

- Break up defense contractors by unwinding mergers and spinning off companies.
- Clone companies to create competition.
- Open IP/Patent Vaults for sole source contractors.
- Give DoD the ability to block defense sector mergers and acquisitions.

- Change the commercial item exception to require that commercial items have 55 percent of sales to the public.
- Ensure that the NDAA-required assessment of the effect of antitrust and competition policy on the national security innovation base includes a rigorous examination of new entrants, vertical foreclosure, supply chain consolidation, the right to repair, and vendor lock-in.
- Study whether security clearance and cyber security requirements act as barriers to entry.
- Limit the use of "other transaction authority" so only nontraditional contractors are eligible.
- Appoint bold enforcers in the DoD Acquisition and Sustainment tree and hold hearings on their decisions.

Further Reading

- "America's Monopoly Crisis Hits the Military" by Matt Stoller and Lucas Kunce, June 2019
- "The China Hack and How to Reverse It" by Lucas Kunce, December 2020
- "Caveat Emptor: Reversing the Anti-Competitive and Over-Pricing Policies That Plague Government Contracting," by Richard Loeb, June 2020

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