Center for Geopolitics | JPMorganChase

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An Era of Global Rearmament and the U.S. Defense Industrial Base

(Revised Edition)

JPMorganChase

Key Takeaways

- **The Era of Rearmament is Structural, Not Temporary.**
  Low stockpiles, growing allied autonomy, technological acceleration, and strategic competition have shifted defense industrial capacity from a peripheral concern to a central strategic variable. The question is no longer whether to modernize the U.S. defense industrial base (DIB), but how quickly it can adapt to a more demanding environment.
- **Industrial Weaknesses Reflect Decades of Peacetime Optimization.**
  Post–Cold War consolidation, just-in-time supply chains, and episodic procurement created efficiency but reduced redundancy and surge capacity. Rebuilding depth will require coordinated demand- and supply-side reforms that address how the government buys and what industry can produce.
- **Innovation is Moving Faster Than Production.**
  Private capital and dual-use technology firms are driving unprecedented defense innovation. Yet acquisition friction, thin supplier networks, and workforce constraints limit the system's ability to translate prototypes into production at meaningful scale.
- **Reform Momentum Is Real — but Implementation Will Determine Impact.**
  Recent executive actions, legislative reforms, and new public-private financing models signal serious policy acceleration. Aligning acquisition pathways with production realities — and sustaining multiyear demand signals — will be critical to turning reform into measurable output.
- **Industrial Renewal Requires Shared Investment.**
  Restoring scale and resilience cannot be achieved through government spending alone. Capital markets, commercial manufacturing capacity, allied cooperation, and workforce modernization must operate in tandem to close the gap between strategic ambition and industrial capability.

Setting the Scene

Since the publication of the first edition of this report in May 2025, the strategic environment around defense has continued to evolve significantly. This update reflects developments in acquisition reform, industrial policy, allied investment, and capital mobilization that are reshaping the U.S. defense industrial base (DIB).

When we first wrote about the DIB, many of its most acute vulnerabilities were already visible. Support for Ukraine following Russia's full invasion exposed the zero-sum nature of modern deterrence for the kinds of systems the American military spent the post-Cold War period

fielding. Transfers of munitions and platforms to partners revealed constraints in replenishment timelines, surge capacity, and supply chain resilience. The American arsenal of democracy had been exposed as fundamentally underequipped for the task at hand.

But urgency had not yet caught up with analysis. Some observers of the DIB often felt as though they were "shouting at the rain"—cataloguing structural weaknesses without corresponding momentum for systemic change.

That has now shifted.

China's temporary restrictions on exports of critical minerals last year highlighted the fragility of key supply chains and the strategic leverage embedded in industrial dependencies. Recent operations in Iran and the Western Hemisphere reinforced the reality that the United States must continue to be prepared to manage multiple theaters at once.

At the same time, assumptions that underpinned the post–Cold War security architecture—including expectations of allied alignment—are being materially reshaped. Many U.S. allies were already pursuing a stronger sovereign defense capability, but developments in the transatlantic alliance have accelerated these efforts in Europe where countries have accelerated defense spending and are investing more heavily in domestic production capacity. This trend is present in other regions as well. Globally, countries are also diversifying supply chains and cultivating new foreign suppliers to reduce reliance on any single source. **The result is sharper competition and increased pressure on all providers to deliver speed, reliability, and value.**

These dynamics have informed in a series of executive actions, legislative reforms, and industrial initiatives that more directly reflect the scale of the challenge. **The question is no longer whether the defense industrial base requires modernization. It is whether reforms will be sufficient—and fast enough—to match the tempo of strategic competition.**

Indeed, since our last edition, a broader recognition has taken hold—across political parties, corporate boardrooms, and capital markets—that defense industrial capacity is not a narrow policy issue but a core pillar of national resilience and central to deterrence itself. The shift reflects the natural culmination of converging and simultaneous pressures that made continued denial untenable. It is for these reasons that, in October 2025, JPMorganChase launched its **Security and Resiliency Initiative (SRI)**, a ten-year, $1.5 trillion plan to facilitate, finance, and invest in industries critical to economic security and resilience, including defense and aerospace.

What is the DIB?

The DIB includes both private sector companies and the organic industrial base, which is a network of government-owned facilities (arsenals, depots, and ammunition plants) that provide critical manufacturing, maintenance, and sustainment support. Private sector firms are divided between traditional original equipment manufacturers (the "primes") and emerging dual-use and defense technology companies (the "non-traditionals"). These firms produce items for the aerospace, maritime, automotive, munitions, and space sectors. There is also a growing market for AI, quantum computing, and other cutting-edge technologies essential to modern warfare.

Why it matters:

A shortage of platforms, munitions, and production capacity is undermining America's ability to deter aggression, equip ourselves and our partners, negotiate from a position of strength, and, ultimately, to fight and win wars if deterrence fails.

A More Demanding Strategic Environment

Three forces are shaping the strategic environment across the DIB—technology, great power competition, and greater allied autonomy.

1. **Technology as Kingmaker.** Technological superiority has always been a military differentiator—but today, the pace and impact of technological change are creating innovation adoption urgency that could reshape the balance of power. Artificial intelligence and commercial off-the-shelf technologies are collapsing traditional kill chains ("see-assess-decide-act") as we enter the age of precise mass in warfare where success will require fielding, iterating, and scaling emerging technologies.

    - **Ukraine has served as a proving ground:** cheap drones and consumer-grade satellite imagery are being fused with Western-made precision weapons to challenge a larger adversary. At the same time, Russia has scaled its own use of inexpensive unmanned systems, including long-range systems, while deploying advanced high-speed and hypersonic missiles designed to evade Western air defenses—illustrating how rapidly both sides are iterating across the cost curve.
    - Other asymmetric conflicts like the Houthi campaign in the Red Sea exposed a troubling cost imbalance: the U.S. regularly spends millions per intercepting missile (the SM-6 costs up to $4.3 million each) to counter Houthi drones that only cost between $2,000 to $50,000.

This innovation gap is shining a harsh light on the Pentagon's emphasis on investing in bespoke production of small numbers of exquisite platforms and weapons. Simultaneously, it faces long-standing procurement challenges—rigid budgetary cycles, protracted production timelines, risk-averse contracting, and insufficient surge manufacturing capacity. The U.S. Government's traditional acquisition model struggles to adapt to commercial technology cycles measured in months, not years. Companies like Anduril, Palantir, and SpaceX have shown that dual-use tech firms can deliver cutting-edge capabilities at speed but integrating them at scale remains an uphill battle.

2. **Great Power Competition.** Revitalizing and modernizing the DIB has taken on additional urgency as strategic competition—with the U.S.-China competition as the primary axis—is once again at the center of defense planning. Beijing's military modernization is not just about catching up—it is about leapfrogging the U.S. and neutralizing its long-held advantages. From anti-ship cruise missiles and drone swarms to hypersonic glide vehicles, anti-satellite capabilities, and shipbuilding volume, China's state-directed defense ecosystem is operating at a tempo the U.S. struggles to match. China now has the world's largest navy by ship count and is rapidly expanding its nuclear arsenal (expected to reach parity with the United States as soon as 2035). China also leads the way in its adoption of technological advances, eroding the U.S. technological edge.

   Compounding the challenge is the tightening alignment among China, Russia, Iran, and North Korea—sometimes referred to as the "CRINK" axis. This emerging bloc is exchanging and stockpiling advanced technology, intelligence, and access to critical resources, allowing mutual circumvention of Western sanctions and export controls. While U.S. regulatory tools like the CHIPS Act and ITAR restrictions can slow technology diffusion, the key underlying technologies of today and tomorrow are based in commercial investments, meaning their spread is inevitable, and restrictive tools cannot prevent the strategic convergence of adversaries. For defense companies, this raises the stakes for secure supply chains, IP protection, and the geopolitical calculus of where—and with whom—they do business.

3. **Greater Allied Autonomy.** The United States has an expansive network of allies and partners. As strategic competition intensifies and the pace of technological change accelerates, increasing and accelerating defense industrial cooperation between the United States and its allies and partners is a critical part of the solution. Many of these countries, however, are also seeking greater strategic autonomy, increasing investment in domestic production lines and indigenous R&D, and attaching local-content requirements to expanded defense budgets.

   - In Europe, new funding mechanisms—such as the Security Action for Europe (SAFE) instrument—are designed to channel spending toward "Made in Europe" materiel. The risk is that these incentives are insufficient to drive expansion and integration of a fragmented European market, but impactful enough to disrupt transatlantic supply chains, slow down delivery, and drive-up costs, as well as limit access to U.S.-made components that smaller defense firms need to be able to grow. The European Commission also plans to incorporate "European preference" into its Defense Procurement Directive, which would impose new requirements and limitations on how

EU countries spend their national money on defense procurements. These protectionist sentiments are already infusing national-level decisions, with some European capitals reportedly seeking to become "ITAR-free" by divesting from U.S. arms and joint ventures.

European governments are also balancing U.S. F-35 acquisitions with investments in next-generation fighter programs, including the British-Italian-Japanese Global Combat Air Programme (GCAP) and the Franco-German-Spanish Future Combat Air System (FCAS). Though the financial, technological, and political complexities surrounding these programs—particularly the latter—underscore how difficult it is to translate the rhetoric of strategic autonomy into execution.

- In Asia, Japanese and South Korean defense firms are among the fastest growing in the world, with annual revenues rising by 25% since 2022 compared to American firms' 15%.

The risks to U.S. defense firms are limited in the near term, but the longer-term implications could be significant. U.S. arms sales—which topped $300 billion in 2024—have long benefited from the "Buy American" halo effect and deep interoperability advantages. Over time, however, sustained concerns over cost, delivery timelines, and political reliability could erode market share—and with it, strategic influence. At the same time, if allied defense industrial investments fragment along national lines, the result may not be true autonomy but reduced interoperability, duplicative spending, and weakened collective readiness.

A Snapshot of the Needs

Acquisition Speed and Program Performance

- The Government Accountability Office's annual assessment said, on average, DoD's major acquisition programs are taking **11 years** to deliver their first capabilities.
- More than **70%** of DoD's major acquisition pathways are behind schedule, with average delays of over two years, and all are over-budget.
- The submarine industrial base needs the capability to produce 3 submarines a year: two *Virginia*-class and one *Columbia*-class. It can currently produce **1.4 a year**.

Aging Platforms and Readiness Strain

- The average U.S. Air Force aircraft is now nearly **30 years old**—the oldest fleet in American history and often older than the pilots flying them.

Industrial Consolidation

- Following the end of the Cold War, a wave of mergers shrunk the defense industrial base from 51 firms to just **5 prime vendors**: Lockheed Martin, Raytheon (RTX), Boeing, Northrup Grumman, and General Dynamics.
- More than **17,000 suppliers** have exited the defense sector in just the past five years, eroding surge capacity across every tier.
- Nearly **50%** of suppliers for precision munitions have exited the market in the past decade, largely due to inconsistent procurement cycles and limited modernization investment.

The Growing Naval Gap - Shipbuilding

- The U.S. accounts **for 0.1%** of global shipbuilding compared to China's **53%**.
- China's shipbuilding capacity exceeds that of the U.S. **by a factor of 200**.
- By tonnage alone, a single Chinese shipbuilder built more commercial vessels in 2024 than the entire U.S. shipbuilding industry has since WWII.
- The People's Liberation Army (PLA) Navy has over **370 vessels** (projected to reach **435** by 2030), compared to the U.S. Navy's shrinking fleet of **295 vessels**.

Workforce Erosion

- The defense industrial workforce has collapsed from about 3 million workers in the mid-1980s to approximately **1.1 million** today—a decline of nearly two-thirds.
- The average skilled defense manufacturing worker is now in their **mid-50s**, with retirements outpacing new entrants.

The Acquisitions-Production Challenge

Decades of consolidation, inconsistent investment, fragile supply chains, and workforce constraints have left the defense industrial base optimized for efficiency in peacetime—not for scale, speed, or sustained competition. Addressing these structural weaknesses requires more than technological breakthroughs or incremental policy change. It requires fixing both sides of the equation: how the government buys and what industry can produce.

Government acquisition decisions shape the demand signals that determine whether industry invests, expands, and builds capacity. But production cannot be willed into existence through procurement alone. Many of today's bottlenecks—sub-tier suppliers, skilled labor, manufacturing infrastructure, and capital investment—require coordinated public-private action beyond the traditional acquisition system.

Innovation Is Surging — Industrial Scale Is Not

The rapid growth of new defense technology companies over the past decade, particularly in AI, autonomy, and cybersecurity has introduced an important new variable into the supply-demand equation. Globally there were less than 100 active defense startups in 2010. That number now exceeds 1,500 today, with close to $50 billion in annual venture capital funding. Many of these firms develop dual-use technologies with both commercial and military applications, and their expansion has been fueled largely by private capital. Venture firms, private equity, and corporate investors increasingly view national security as a long-duration growth sector, while public-private mechanisms—from defense-focused venture funds to organizations such as the Pentagon's Defense Innovation Unit (DIU)—have helped accelerate this ecosystem.

The result is a paradox: the United States is generating defense innovation at unprecedented speed, but industrial capacity has not kept pace. New entrants can develop capabilities rapidly, yet integrating them into production systems at scale remains untested, in part because the Pentagon has not been willing to invest in scaling them. **This growing gap between innovation and industrialization is now one of the defining structural challenges facing the defense industrial base.**

The Acquisition System: Demand-Side Constraints and Momentum for Reform

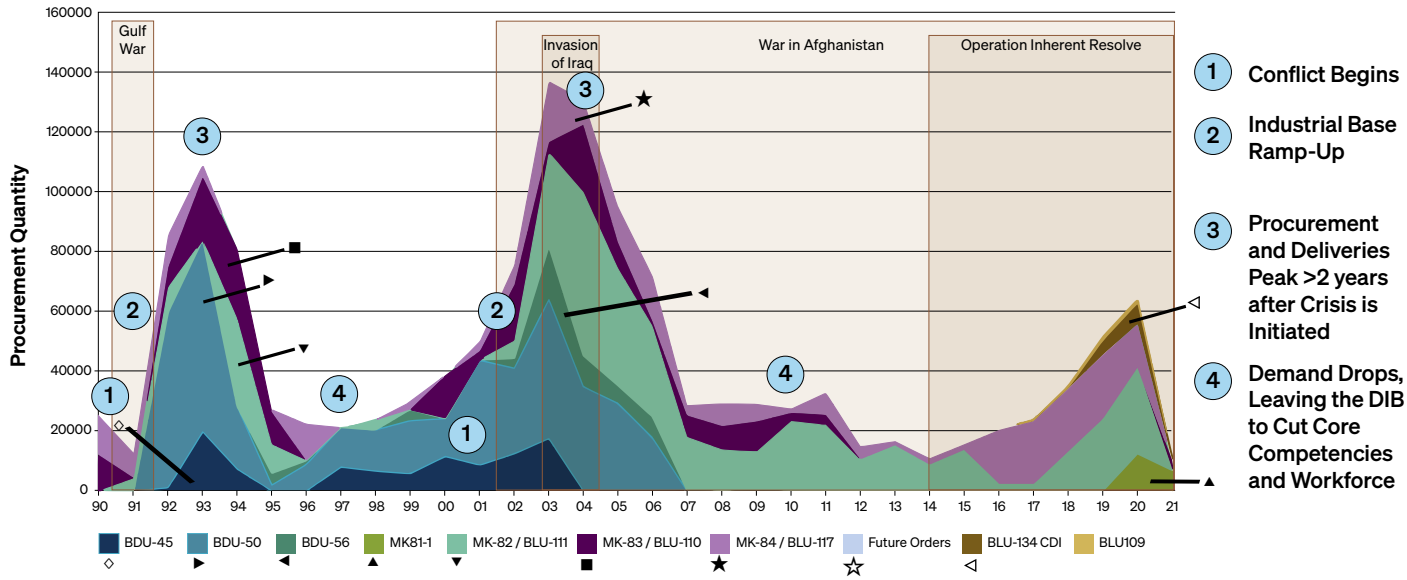
Reliable demand signals are the foundation of industrial capacity. Without them, firms cannot plan, finance, or scale production.

Yet the defense acquisition system has struggled to provide that predictability either for traditional or emerging capabilities. Long development cycles, highly prescriptive requirements, and rigid budgeting processes have left procurement misaligned with the pace of technological change and the realities of modern conflict. The war in Ukraine has demonstrated how quickly battlefield technologies and tactics evolve—requiring rapid iteration, scalable production, and continuous adaptation. The current system is not designed to move at that speed.

At the same time, the Pentagon often buys too little, too late, and too inconsistently (see Figure 1). Production lines are asked to surge after years of under-ordering. Long-lead systems require sustained procurement years in advance. But even critical long-lead systems—such as air and missile defense systems—face persistent shortages because procurement has not kept pace with demand or production timelines.

Budget instability compounds these problems. Continuing resolutions and delayed appropriations discourage long-term investment, workforce expansion, and capacity growth—the very behaviors required to rebuild industrial depth. **Without predictable, sustained purchasing, industry rationally avoids building excess capacity that may never be used.**

Figure 1. **Always Playing Catch-up: Historical Demand for Munitions, 1990–2021**



Source: OUSD(A&S) Joint Production Accelerator Cell

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Momentum for Reform

Recognition of these constraints has grown significantly in recent years. Both Congress and the Executive branch have increasingly focused on how to use the U.S. Government's single-buyer purchasing power to reshape the DIB to accelerate procurement, expand multiyear purchasing, and strengthen industrial capacity. Legislative initiatives and executive actions increasingly aim to provide more flexible acquisition authorities, more consistent demand signals, and greater investment in critical supply chains, including domestic mineral mining and refining.

In November 2025, the Pentagon outlined a bold reform agenda stressing the need to speed capabilities to the warfighter and to produce those capabilities at scale even if it meant greater financial costs and accepting an "85 percent solution." It also pledged to maintain at least two qualified sources for critical programs to reduce over-reliance on a single contractor. To update the requirements process, to the Pentagon will shift to a Portfolio Acquisition Executives (PAE) model that would inject flexibility into acquisitions, creating pressure and opportunities for industry to innovate solutions and deliver them quickly. This could increase the role of industry as a partner with the Pentagon, rather than provider to it. While launching these acquisitions reforms, the U.S. Government has also pursued public-private partnerships, including through taking equity stakes in companies, in an attempt to shore up the availability of critical minerals and rare earths.

Many of the announced reforms were also codified in one form or another in the 2026 National Defense Authorization Act (NDAA), which implements provisions from the Senate's FoRGED Act (Fostering Reform and Government Efficiency in Defense) and the House's SPEED Act (Streamlining Procurement for Effective Execution and Delivery). These include efforts to create a flatter governance structure for acquisitions by shifting from program executive officers (PEOs), who manage single programs, to PAEs who manage entire mission sets; stronger requirements to buy commercial as the default approach, and leeway for startups to use their own commercial accounting systems rather than expensive government-specific ones. The Administration has pursued additional reforms through 15 Executive Orders meant to shorten timelines, modernize procurement, and reduce costs. *(See Table 1)*

But even these reforms may not go far enough.

The Pentagon may ultimately need two distinct acquisition pathways: one designed for highly producible systems that can be scaled rapidly, purchased in large quantities, and replaced frequently; and another for more complex, long-lead systems that still need to be produced more quickly and in larger numbers, but which will not be turned out at the speed and scale of the first category of systems.

Treating these fundamentally different categories of capability as if they can be acquired through the same system is itself a structural constraint, as is most investments going toward more complex systems that, by definition, will be produced more slowly and at higher cost. Aligning investment choices, acquisition pathways, and production realities may be one of the most consequential reforms still ahead.

Table 1: Zooming In: A Year of Policy Acceleration

Four Landmark U.S. DIB-related Executive Orders

1. **Reforming Foreign Defense Sales to Improve Speed and Accountability (EO 14268 April 9, 2025)**
    - Directive aimed at reforming foreign defense sales processes to improve speed, transparency, and accountability.
    - Reviews, streamlines and prioritize demands (review current supply constraints). Ensure priority not cause significant harm to readiness;
    - Aims to lower costs for U.S. by integrating FMS exportability features in military material design phase, improve financing options, and contract flexibility.
2. **Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base (EO 14265 April 9, 2025)**
    - Aims to accelerate Pentagon procurement, revitalize the defense industrial base, and bolster national security.
    - Prioritizes speeding up technology delivery, increasing commercial solution adoption, and reducing regulatory barriers
    - Orders review of all major defense acquisition programs (MDAPs) that are 15% behind or 15% over cost
    - Incentivizes and rewards risk-taking and innovation from acquisition workforce.
3. **Restoring America's Maritime Dominance (EO 14269 April 9, 2025)**
    - Designed to increase U.S. vessel commercial competitiveness, rebuild maritime manufacturing, as well as strengthen and grow the associated workforce
4. **Prioritizing the Warfighter in Defense Contracting (EO 14372 Jan 7, 2026)**
    - Provides for review of U.S. defense contractors that the U.S. Government views as underperforming while prioritizing investor returns through stock buybacks and dividends
    - Directs that all future defense contracts prohibit stock buybacks and dividends during underperformance, ties executive compensation to production and delivery metrics, and allows for executive base salary caps.

Congressional Action: 2026 NDAA In Depth

This year's NDAA:

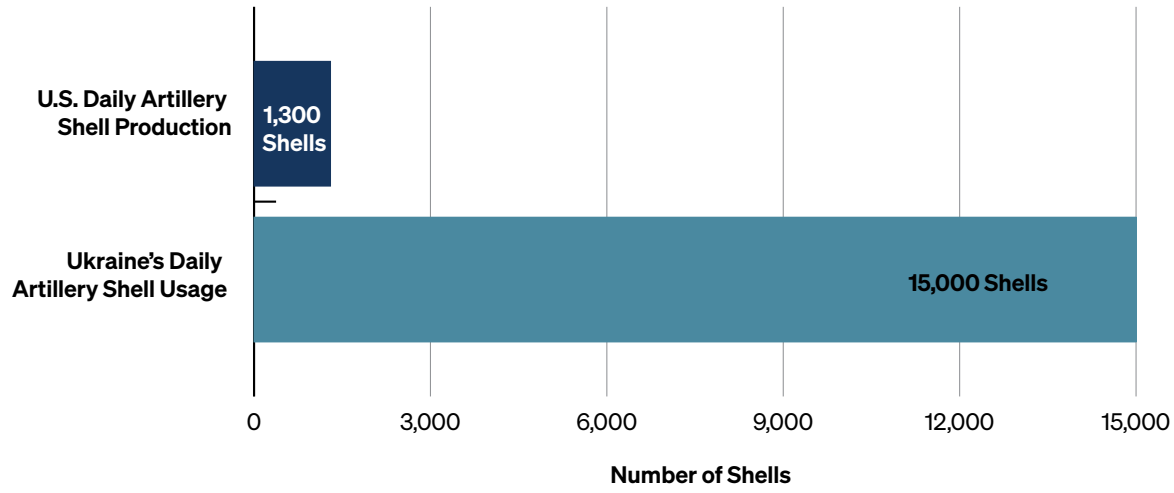
- Establishes a collaborative forum for government, private-sector, academia, and non-profit entities to address parts obsolescence, supply chain fragility, and the urgent need to restore U.S. surge capacity.
- Requires multi-year procurement contracts for munitions and other high-demand systems to expand industrial capacity and deliver greater efficiency and cost savings for the taxpayer.
- Creates a program to foster the maturation and expansion of **robotic automation capabilities for munitions manufacturing.** Also calls for a focus on emerging biotechnologies, AI security frameworks, and a new AI task force. Mandates a review of hypersonic material manufacturing
- Establishes a working group to examine the domestic small unmanned aircraft system (UAS) industrial base and recommend investments or other actions to improve the domestic supplier base for UAS systems and components.
- Establishes a security cooperation initiative to **strengthen cooperation among the defense industrial bases** of the United States and allied and partner countries in the Indo-Pacific region.
- Supports the "Golden Dome" missile defense architecture and expands space-based capabilities.
- Implements provision from two feeder bills, the Senate proposed FoRGED (Fostering Reform and Government Efficiency in Defense Act) and the complimentary House proposed SPEED (Streamlining Procurement for Effective Execution and Delivery) to shorten, modernize, and create more cost-effective, rapid acquisition systems
- Codifies all or parts of 15 Executive Orders notably:
    - Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base (EO 14265)
    - Building the Golden Dome for America (EO 14186)
    - Deploying Advanced Nuclear Reactor Technologies for National Security (EO 14299)
    - Restoring American Airspace Sovereignty (EO 14305)
    - Unleashing American Drone Dominance (EO 14307)

Production Capacity: Supply-Side Constraints and Industrial Renewal

Reforming acquisition alone will not solve the production challenge. Even with stronger demand signals, **the surge capacity cannot be created simply by placing bigger orders**—it must be built, financed, staffed, and sustained over time. And some systems are simply easier to mass produce than others.

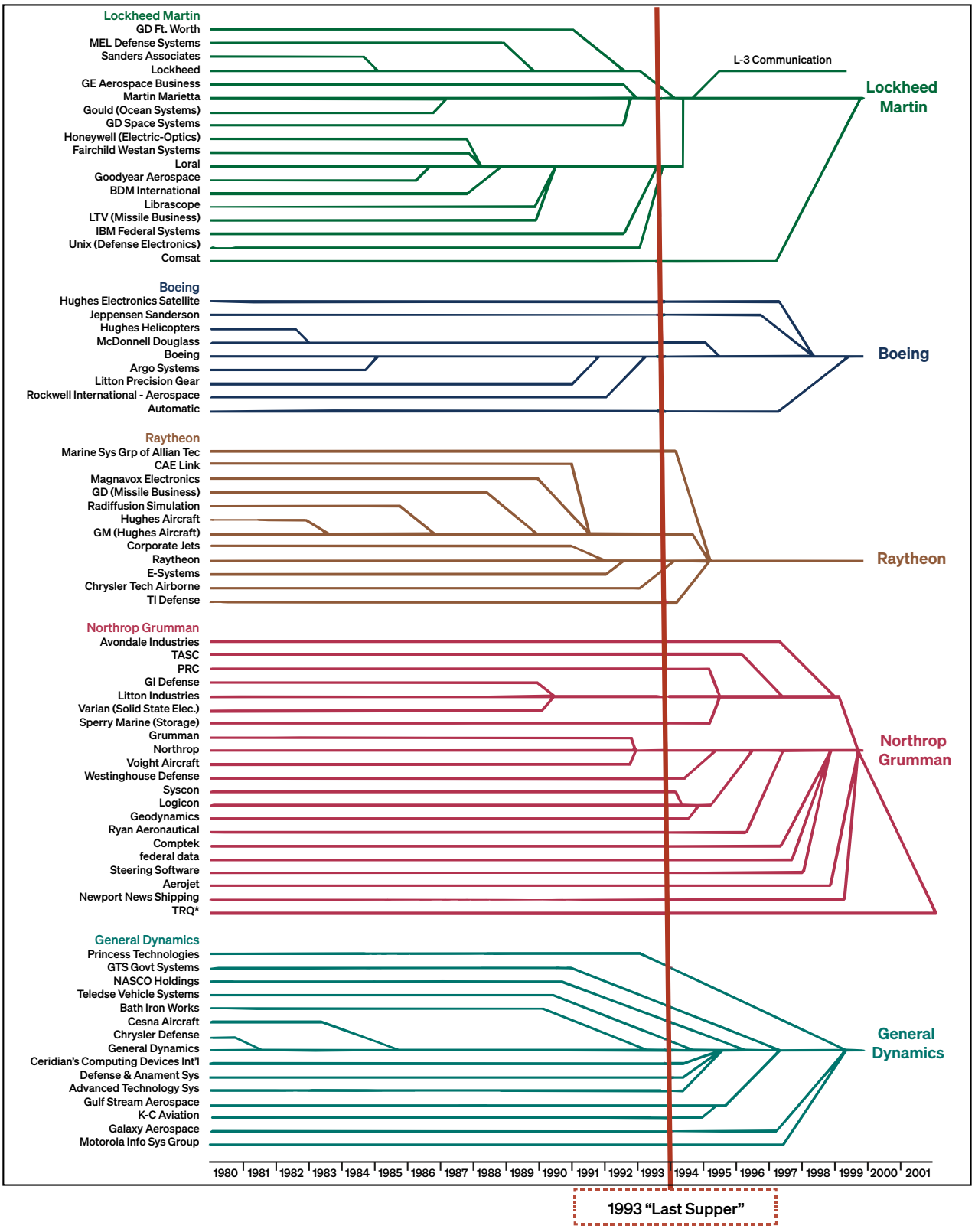
Many of today's supply-side constraints are the downstream result of long-term structural change. Following the end of the Cold War, the Pentagon shifted toward procuring ever smaller numbers of advanced systems, triggering consolidation that reduced the number of major defense primes from dozens to a handful. This consolidation was efficient on paper but brittle in practice. Today, there is only one active production line for many critical systems, from large-diameter solid rocket motors to nuclear submarine propulsion components. Meanwhile, investment in the Organic Industrial Base—the network of government-owned facilities responsible for critical manufacturing and surge capacity—also declined. Over time, this narrowed the industrial ecosystem, reduced redundancy and the number of skilled workers, and concentrated risk across supply chains, creating single points of failure.

Figure 2. **Current U.S. artillery production capacity is insufficient for a modern war.**
Ukraine's daily burn rate of artillery versus daily U.S. production



Source: American Enterprise Institute and *The New York Times*.

Figure 3. **From 51 to 5: Mapping the U.S. Defense Industrial Base Consolidation**



Source: U.S. Department of Defense Report, "State of Defense Industrial Base," 2022.

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As a result, many firms responsible for producing end-use systems lack ready and affordable access to the four foundational inputs required to scale production: (1) physical infrastructure, (2) machines and tools, (3) critical raw materials and sub-tier components, and (4) skilled labor.

Industrial capacity is too thin across all four.

First, physical infrastructure. For many critical systems, a single production line remains active—from large-diameter solid rocket motors to nuclear submarine propulsion components. Industry rationally optimizes for steady-state efficiency, which limits idle capacity and discourages upfront investment in facilities that may sit unused. This is especially acute among smaller suppliers, where even modest expansion can require capital, specialized tooling, and risk tolerance that smaller firms often cannot absorb on their own. As a result, industrial capacity reflects current procurement levels rather than potential wartime demand. **If supply continues to be solely dependent on demand, however, surge capacity beyond existing procurement levels may remain perpetually out of reach.**

Second, machines and tools. Scaling output is often gated by long-lead equipment (such as specialized castings, microelectronics, and rocket motors), qualified tooling, and specialized industrial processes. When those bottlenecks sit several tiers down the chain, prime contractors cannot simply "buy their way out" through larger contracts; the limiting factor is often whether a lower-tier supplier can expand fast enough without breaking quality or schedule.

Third, critical inputs and sub-tier components. The U.S. relies on a narrow set of sources for rare earth minerals, specialty chemicals, propellants, and advanced semiconductors, which drives price swings and schedule uncertainty. Deep in the supply chain, third- and fourth-tier suppliers have become chokepoints—often undercapitalized and workforce-constrained. Disruptions at those levels cascade quickly, turning a localized shortfall into a program-wide delay.

Fourth, labor. Workforce constraints are now a binding limit on expansion, particularly for machinists, welders, industrial maintenance, and other skilled trades. As our recent report, Working to Win, noted, **the U.S. could face a potential shortfall of more than two million manufacturing workers by 2030, costing the economy up to $1 trillion annually if left unaddressed.** Talent pipelines for advanced manufacturing and defense-related fields remain narrow—only 20% of high school graduates are prepared for college-level coursework in STEM fields—and regional labor shortages, particularly in the Midwest and Southeast, persist even where industrial investment is increasing.

Together, these constraints mean that scaling defense production for existing systems is not one problem—it is a systems problem. Progress requires rebuilding depth across infrastructure, inputs, and labor at the same time.

From Subsidy to Stake — and Capital to Scale

U.S. industrial policy is shifting from indirect subsidy toward more direct strategic participation in critical sectors. Federal support is increasingly structured not only to stimulate investment, but to shape markets, secure supply chains, and retain long-term influence over strategically important capabilities.

Recent examples include:

- Nippon Steel–U.S. Steel approval — the U.S. government retained a "golden share" with veto authority over certain strategic decisions.
- Intel Corporation — conversion of roughly $11 billion in semiconductor subsidies into a 9.9% non-voting federal equity stake.
- MP Materials — direct federal investment and long-term offtake agreements to rebuild domestic rare-earth mining, processing, and magnet production.
- L3Harris — the Pentagon has planned a $1 billion investment in the firm's Missile Solutions business as part of an effort to upgrade L3Harris' solid rocket motor base production capacity.
- Critical minerals infrastructure — Defense Production Act funding for new separation and magnet facilities in Nevada and Texas.

At the same time, private capital is mobilizing in parallel. Investors are increasingly treating industrial resilience and production capacity as long-term investment priorities, including **JPMorganChase's $1.5 trillion, 10 year Security & Resiliency Initiative (SRI).**

Together, these actions reflect a structural shift: rebuilding industrial capacity is no longer treated as a government spending exercise, but as a shared public-private investment effort.

Building Industrial Capacity: Supply-side solutions

Strengthening the supply side of the defense industrial base requires a combination of modernization, diversification, and structural reinforcement. No single intervention is sufficient; resilience emerges from layered capacity across multiple domains.

One lever is **modernizing production methods**: automation, 3D printing, and software-defined production, among other technologies, can compress timelines, increase flexibility, and reduce labor intensity—particularly for components, spares, and repeatable subassemblies. Broad adoption across both prime contractors and suppliers could significantly expand output while reshaping workforce requirements toward higher-skill technical roles.

A second lever is **commercial surge capacity**. The U.S. possesses vast manufacturing infrastructure outside the traditional defense sector—from automotive production to heavy equipment fabrication to semiconductor manufacturing. Under the right contractual and certification models, portions of this commercial base could serve as surge-ready, "third shift" capacity for defense production, particularly for dual-use systems or components. Historical precedents—from wartime industrial conversion to structured public-private reserve models—demonstrate that rapid expansion is possible when incentives and planning align.

A third lever is **shoring up the lower tiers**. In some cases, trusted international partners can provide redundancy and speed; in others, domestic scaling is necessary to ensure resilience. Strategic stockpiles, long-term supplier agreements, and financing support for critical niche producers can convert chronic chokepoints into durable throughput.

Fourth, to address the DIB's workforce shortage, the **U.S. federal government should modernize and scale the nation's training ecosystem**—expanding apprenticeships, strengthening employer-based programs, supporting industry partnerships, and closing the digital-skills gap—to ensure critical industries have the talent required to deliver on national priorities. Likewise, states must build robust regional talent pipelines—through work-based learning, employer-aligned credentials, and data-driven funding systems—to connect learners to in-demand careers and enable communities to capture strategic industry growth.

Finally, enabling conditions matter: **permitting timelines, industrial energy availability, and infrastructure access** directly shape the speed at which new capacity can come online. Streamlined approvals, coordinated power procurement, and standardized regulatory processes for defense-critical projects can materially shorten build times and reduce barriers to investment.

Strategic Priorities

Expanding capacity is not only a question of volume—it is a question of strategic focus and prioritization. Especially over the short-term, the most scalable capabilities to build capacity rapidly will be precise mass systems—less expensive, attritable autonomous systems capable of production through commercial manufacturing—in all domains. Early scaling efforts must prioritize precise mass and complementary capabilities that define operational effectiveness in modern conflict, including precision-guided munitions, long-range fires, shipbuilding, and air and missile defense.

Production strength must also extend beyond manufacturing to sustainment. Maintenance infrastructure, parts availability, and system readiness determine how much usable capacity actually exists. Depot modernization, digital supply tracking, predictive maintenance, and additive manufacturing for spare parts can increase effective force availability without expanding platform inventories.

Ultimately, industrial resilience depends on integration across the full production ecosystem—from raw materials to final assembly to sustainment. Modern manufacturing tools, commercial surge capacity, reinforced supply chains, and workforce expansion must advance together. Pursued in isolation, each provides incremental improvement. Pursued in combination, they rebuild the depth, flexibility, and responsiveness required for sustained strategic competition.

Conclusion

Rebuilding, modernizing, and expanding the U.S. defense industrial base is not just a policy priority—it is a generational challenge. Meeting this moment will require sustained, bipartisan commitment and a reimagining of the traditional defense ecosystem. **Money matters, but it is not sufficient.** Coordinated action across government, industry, finance, and the scientific community is now essential to restore depth, speed, and resilience—so that American power remains credible, not just aspirational.

What We're Watching:

- **Implementation of Reform Authorities.** How the Pentagon translates the 2026 NDAA, standing Executive Orders, and its reform agenda into actual acquisition speed, contracting changes, and measurable production gains.
- **Big, Beautiful Bill Contracting.** Whether the Pentagon can get the Big, Beautiful Bill dollars under contract in 2026, since the $250 billion in appropriations included billions to scale emerging capabilities and enhance the DIB.
- **Defense Budget Trajectory.** Whether the Administration secures a meaningful increase in FY27 defense spending (towards its announced $1.5 trillion goal); whether it is able to translate an increased topline into meaningful spending that supports multiyear procurement and industrial expansion; and whether this increased topline is a blip or a trend.
- **Industrial Policy in Practice.** The extent to which the federal government continues shifting from subsidies to strategic participation — including equity stakes, offtake agreements, and expanded use of the Defense Production Act.
- **Allied Industrial Alignment vs. Fragmentation.** Whether rising allied defense spending translates into deeper industrial cooperation with the United States — or accelerates parallel, nationally focused production ecosystems that dilute interoperability.
- **Supply Chain Reconfiguration.** How quickly the United States and its partners diversify sourcing for critical minerals, semiconductors, and other bottleneck inputs — and whether new capacity is actually built at scale.
- **Congressional Action on Workforce.** Whether Congress reauthorizes the Workforce Innovation and Opportunity Act (WIOA), which strengthens the nation's public workforce system and the Department of Labor's $145 million commitment to expanding performance-based registered apprenticeships.
- **Commercial Capacity Mobilization.** Whether regulatory, contracting, and certification reforms meaningfully enable commercial manufacturers — from automotive to advanced electronics — to participate in defense production before a crisis forces conversion.
- **China's Production Tempo.** The pace of expansion across China's shipbuilding, missile production, and integrated civil-military industrial system — and whether U.S. and allied capacity is keeping pace.
- **Innovation-to-Production Transition.** Whether emerging defense technologies — particularly autonomous systems, AI-enabled platforms, and attritable systems — move into sustained, high-volume manufacturing.

Data Explanation

Figure 1. **Always Playing Catch-up: Historical Demand for Munitions, 1990–2021**

Overview:
This chart shows U.S. munitions procurement quantities over time, spanning from approximately 1990 through 2021. The data is displayed as a layered area chart, with total procurement rising and falling across four major conflict periods: the Gulf War, the Iraq War, the War in Afghanistan, and Operation Inherent Resolve. The chart highlights a repeating four-step cycle of demand tied to military conflicts.

Step 1 – Conflict Begins

At the onset of each conflict, procurement quantities start at a relatively low baseline.
- Around the early 1990s (Gulf War), procurement begins below ~20,000 units.
- Similar low starting points appear before the Iraq War (early 2000s) and again prior to later conflicts.
  This phase represents initial demand before large-scale mobilization.

Step 2 – Industrial Base Ramp-Up

Procurement begins to increase steadily as production ramps up.
- During the Gulf War, quantities rise sharply to roughly 100,000+ units.
- Prior to the Iraq War, procurement climbs again, reaching approximately 40,000–60,000 units before accelerating further.
  This phase reflects the time required for manufacturing and supply chains to respond.

Step 3 – Peak Procurement (2+ Years After Conflict Begins)

Procurement reaches its highest levels, typically two or more years after the conflict begins.
- The largest peak occurs during the Iraq War (around 2003–2005), exceeding 120,000 units, the highest point on the chart.
- The Gulf War peak is slightly lower but still significant (around 100,000+ units).
  This phase represents sustained high demand once operations are fully underway.

Step 4 – Demand Drops

After the peak, procurement declines sharply, often returning to lower levels.
- Following both the Gulf War and Iraq War peaks, procurement drops back to roughly 20,000–40,000 units.
- During the Afghanistan and later operations, the pattern continues with smaller peaks followed by declines.
  This phase reflects reduced demand and a shift away from surge production, often accompanied by a contraction in the industrial base.

Access the chart version

Figure 3. **From 51 to 5 Companies: Mapping the U.S. Defense Industrial Base Consolidation**

LOCKHEED MARTIN

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Lockheed + Martin Marietta	1995	Merger forming Lockheed Martin
GE Aerospace	1993	Acquired
General Dynamics (Fort Worth)	1993	Acquired
Loral (Defense Systems)	1996	Acquired
IBM Federal Systems	1996	Acquired
LTV (Missiles & Electronics)	1992–1993	Acquired
Unisys Defense	1995	Acquired
Sanders Associates	1992	Acquired
Ford Aerospace	1990	Acquired
Goodyear Aerospace	1987	Acquired
Fairchild Weston Systems	1994–1995	Acquired
Gould Ocean Systems	1988–1989	Acquired

BOEING

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Rockwell Aerospace	1996	Acquired
McDonnell Douglas	1997	Major merger
Hughes Space & Communications	2000	Acquired
Hughes Electronics (partial)	1997–2000	Defense assets acquired
Litton Precision Systems	1995–1996	Acquired
Argosystems	1995–1996	Acquired
Jeppesen Sanderson	2000	Acquired

RAYTHEON

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Chrysler Technologies Airborne Systems	1996	Acquired
E-Systems	1995	Acquired
Texas Instruments (Defense)	1997	Acquired
Hughes Aircraft	1997	Major acquisition
Beech Aircraft	1980	Acquired
Magnavox Electronic Systems	1995	Acquired
General Dynamics (Missile Systems)	1992	Acquired

NORTHROP GRUMMAN

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Northrop + Grumman	1994	Merger forming Northrop Grumman
Westinghouse Defense	1996	Acquired
Logicon	1997	Acquired
Litton Industries	2001	Acquired
TRW	2002 (just beyond chart)	Acquired
Vought Aircraft	1992–1993	Acquired
Sperry Marine	1990s (early)	Acquired
Ryan Aeronautical	Ryan Aeronautical	Ryan Aeronautical

GENERAL DYNAMICS

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Bath Iron Works	1995	Acquired
National Steel & Shipbuilding	1998	Acquired
Gulfstream Aerospace	1999	Acquired
Cessna	1992	Reacquired
Motorola Information Systems	1997	Acquired
Galaxy Aerospace	2001	Acquired

EVENT	APPROX. YEAR	DESCRIPTION
"Last Supper" (DoD consolidation push)	1993	Triggered rapid mergers across the defense industry

Note: Dates are approximate and derived from the visual timeline of the source chart, supplemented by known historical merger activity. For exact transaction dates, refer to official company records.

Access the chart version

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