

Mergers Benefit Arms Industry, but Erode Controls

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Because of recent arms industry consolidations, the business of defense has become increasingly commercial.

Some say business is business, one sector is no different from another, and this is as it should be. But others believe the commercialization of the defense industry is anathema because it makes it next to impossible to monitor and regulate the sale of weaponry and dual-use products machine tools, high-speed microchips and processors as well as other types of equipment that foreign militaries can use for surveillance and information gathering purposes.

To explore the issue, Economists Allied for Arms Reduction (ECAAR) in June at the United Nations helped organize a panel of well known specialists in the field. Panelists included: Joel Johnson, Aerospace Industries Association; Natalie Goldring, the Program on General Disarmament, University of Maryland; Bill Hartung, World Policy Institute, New School University; and Janne Nolan, the Century Foundation. Hartung, Nazir Kamal of the U.N. Department for Disarmament Affairs, and ECAAR, organized the event, which was moderated by David Gold, visiting fellow, Rutgers University, and Lucy Webster, director of ECAAR. Mr. Joao Honwana, Chief, Conventional Arms Branch, DDA represented the United Nations.

Johnson opened the meeting by putting the issue of consolidation in historical context. He said industry leaders in the mid-1990s chose to consolidate because of the less than enviable track record sustained by many in the non-defense sector who throughout the 1970s and 1980s had tried unsuccessfully to diversify. But the move to save money in a time of increasingly tight defense dollars went too far. As a result, he explained, the government took the position that the industry had imploded, and it was not going to permit further consolidation. Worried that there would not be enough competition left in the system, the government prohibited Northrop Grumman from merging with Lockheed Martin and Newport News from merging with its competitor, Electric Boat. But it wasn't until his final remarks about arms exports and the commercialization of the industry that Johnson became the symbolic "bad guy" against whom the other speakers would rally later in the meeting.

Improved Coordination for Major Transfers Still Poor

Goldring did not dispute Johnson's chronology of industry consolidation, but she did take issue with the policy's ramifications. In a briefing paper addressing the implications of restructuring the global arms industry, she concluded that prospects for improved coordination of major conventional weapons transfers "seem poor, given the apparent disinterest of the U.S. government in accepting any limitations on its weapons transfers." Furthermore, she said in the paper, while many useful steps have been taken by regional and international organizations, the level of coordination among these efforts is unclear. "As a result, the efforts are neither mutually exclusive nor collectively exhaustive, which creates a risk that weapons will fall through the cracks in the system."

Post-Gulf War Sales Killed Efforts to Limit Transfers

Hartung, picking up where Johnson left off, showed how the industry after the Persian Gulf War used arms sales to generate revenue. "I think . . . the push for arms exports, which accompanied and to some degree preceded the merger wave, helped kill off one of the most promising recent attempts to have a global arrangement to limit arms sales," he said, referring to former President George Bush, who in the run-up to the 1992 presidential election tried to show his concern for middle-class Americans by announcing in front of cheering defense workers in St. Louis the multi-billion dollar sale of F-16s to Saudi Arabia. Hammered at that time by candidate Bill Clinton for

being out of touch with the public, Bush again attempted to demonstrate his so-called empathy by announcing yet another arms sale, this time to Taiwan. Hartung said these two announcements effectively ended a series of arms reduction talks then taking place between France, Russia, the United Kingdom and the United States.

Defense consolidations had other consequences too, however. “Another impact of consolidation, and the fact that it’s essentially a buyer’s market, is that . . . there’s a push for higher and higher levels of technology,” Hartung pointed out. Referring to Clinton’s 1995 sale of F-16s to the United Arab Emirates (UAE), he said any country with a lot of cash to spend has a tremendous amount of leverage. And the companies? Lockheed Martin, its stock prices half then what they had been months earlier, “basically gave [the UAE] a system more capable than the United States has in its own arsenal.” In addition, consolidation led to increased supplies of surplus weapons. “Everything from AK-47s on up to F-16s were sold for little or nothing essentially as a cheap way to buy allies or open the door to what would help sales of new weapons in the future,” Hartung claimed. In some cases, he noted, it was cheaper to give the weapons away than to destroy them. He also said defense industry consolidation helped to create a leaner, meaner lobby. “They’re even more wired than they were in the old days of multiple companies, and they can put that to their advantage both to push for subsidies for arms exports and also for certain procurement projects.”

Laissez-Faire Approach is Risk to Saudi Arabia

And Nolan, chairman of a presidential commission to review U.S. armaments and defense technology policy prior to President Clinton’s 1995 decision to permit the United States to sell armaments with commercial interests in mind, faulted Johnson for his support of an industry which until recently was not viewed as commercial. “F-16’s ain’t washing machines,” she said, quoting late Israeli Minister of Defense Moshe Dayan. Reminding audience members of the massive supply of U.S. weaponry left in the hands of those who came to power in 1979 after the fall of the late Shah of Iran, and suggesting that the same thing could happen in Saudi Arabia which she described as suffering from external indebtedness and questionable internal cohesion, she said, “The risk . . . of selling weapons and weapons technologies without effective monitoring is very high.” Citing yet another example, she said the “laissez-faire approach to the sale of technologies to Iraq throughout the 1980s led to its ability to develop a variety of programs for weapons of mass destruction, with a minimum of monitoring through commercial channels, some clandestine, most overt.”

She encouraged the United States to take the lead in reforming its export control system, but describing the system as “elaborate and extremely Byzantine,” she seemed less than hopeful that the government would ever be able to regulate weapons and their technologies. So ineffective is the system, she said, that it is next to impossible to know whether critical technologies will actually arrive at their intended destinations. “This is the world in which Congress is increasingly transnational, [and business is] done by entities, companies and others that owe allegiances to no country.”

Noting the process of reform hangs in the balance between idealism and fatalism, she described a Defense Science Board report to the Secretary of Defense that acknowledged the growing commercialization of the industry and concluded – fatalistically, in her opinion – “that there are no effective ways to manage through any kind of controls the commercial trade in weapons technologies.” For this, she faulted the government, saying the U.S. bureaucracy is organized in such a way as “to maximize inefficiency and failure.” This, she said, “is no longer appropriate for any kind of advanced technology.”

Business is Business

Almost anticipating what Hartung and Nolan would say about the Gulf War and the commercialization of the

defense industry, this perfect bad guy — Johnson — concluded his remarks by crediting Desert Storm for having put an end to years of negative press attention about weapons that didn't work. "The tanks ran, and the helicopters flew, and the precision weapons by and large hit their targets," he said, also crediting Desert Storm for having greatly reduced political opposition to the sale of sophisticated weaponry to Arab countries. The fact that the Iraqis were unable to use many of their high-tech weapons proved "they didn't have the intelligence capability; they didn't have the aerial capability; they didn't have the communications capability; and they didn't have the ability to find out where we were and to move their guys," so they basically dug in almost in a World War II fashion.

Is This As It Should Be?

To him, foreign militaries in the future will want communications equipment, information gathering and processing systems as well as dual-use equipment. "Everyone else in the world is now looking pretty seriously at their militaries, which [will] have to buy a whole lot of stuff that increasingly will come out of the commercial sector, [making] arms control . . . much more complicated." Business is business, and this is as it should be, Johnson would say privately. But Goldring, Hartung, and Nolan see it differently. For them, an industry involved with the production and sale of arms needs to be monitored and controlled by the an efficient intergovernmental system. And so the beat goes on.

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