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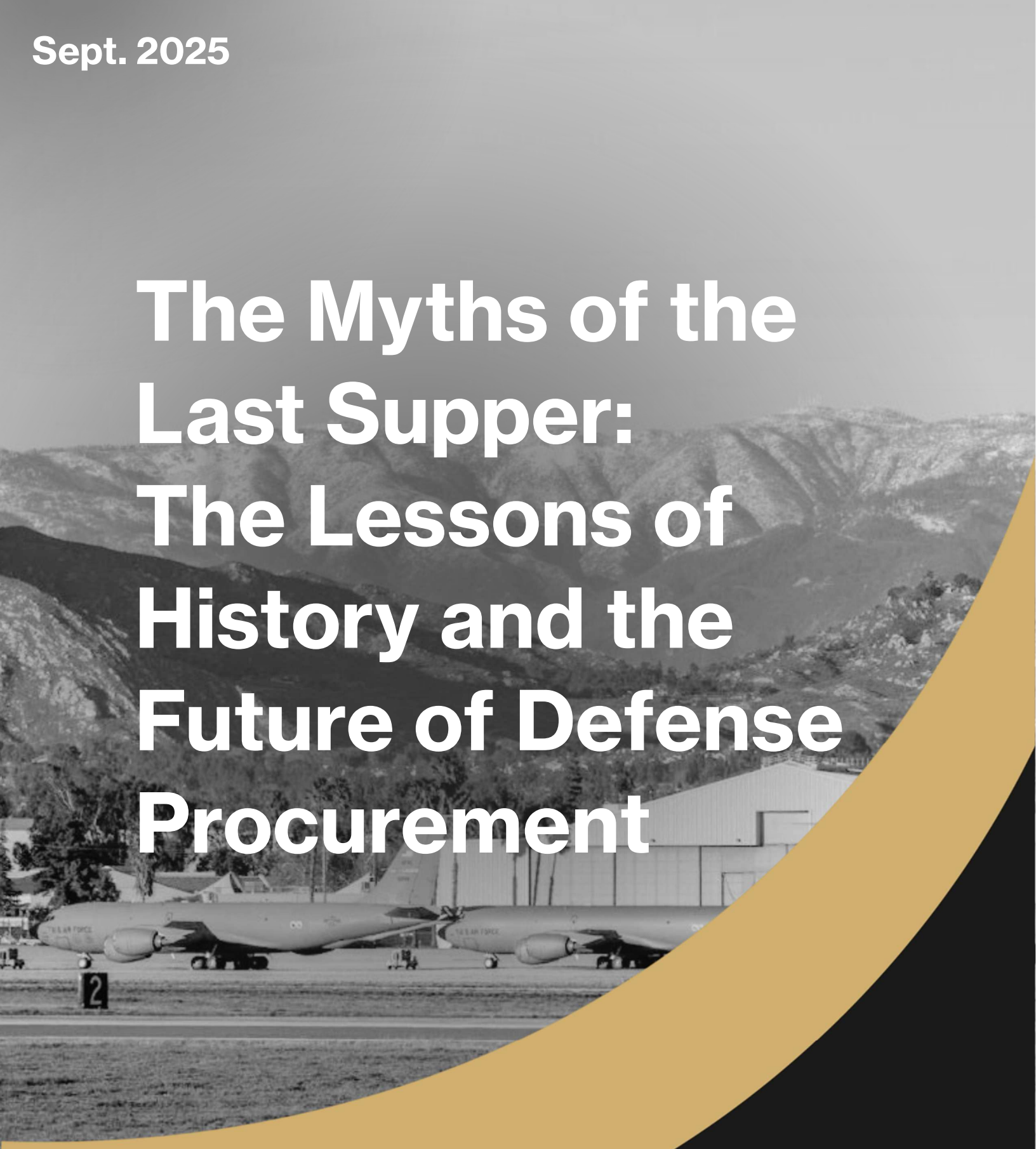
The Myths of the Last Supper: The Lessons of History and the Future of Defense Procurement



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Introduction

Defense acquisition is broken. Despite an ever-growing and very large budget, the military does not use the most modern technology at scale. The industrial base cannot meet production demand, and the timelines for procurement are astonishingly long. Unlike so many policy areas, improving this process has bipartisan support. The Pentagon's top leadership focused on it during the Biden administration. And the second Trump administration has made acquisition reform a focus of its first 100 days. In March 2025, Secretary Hegseth issued a memo directed at reforming the department's acquisition,[1] and the Army issued a similar memo in late April 2025.[2] Private sector leaders are also sounding the alarm, from Michael Bloomberg[3] and Jamie Dimon[4] to tech leaders Eric Schmidt[5] and Alex Karp.[6]

What these leaders, from across the political and public-private spectrum, have in common is the diagnosis that the gulf between technology in the government and the private sector is wider today than ever before, and the Department of Defense (DoD) is not able to access or use cutting edge technology. And beyond an inability to modernize effectively, DoD is more broadly unable to acquire what it needs – be that munitions, submarines, or aircraft – at a reasonable price, on a reasonable timeline, or, in some cases, at all.

The usual story for how we got here most often starts with the so-called "Last Supper," a 1993 dinner hosted by President Clinton's Secretary of Defense, Les Aspin, and Deputy Secretary of Defense, and future Defense Secretary, William Perry. Aspin and Perry gathered senior defense industry leaders to make clear that with the end of the

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[1] *Memorandum on Directing Modern Software Acquisition to Maximize Lethality*, U.S. Dept. of Defense (Mar. 6, 2025), https://media.defense.gov/2025/Mar/07/2003662943/-1/-1/1/DIRECTING-MODERN-SOFTWARE-ACQUISITION-TO-MAXIMIZE-LETHALITY.PDF

[2] *Memorandum on Army Transformation and Acquisition Reform*, U.S. Dept. of the Army (Apr. 30, 2025), https://media.defense.gov/2025/May/01/2003702281/-1/-1/1/ARMY-TRANSFORMATION-AND-ACQUISITION-REFORM.PDF.

[3] *Strategic Edge: A Blueprint for Breakthroughs in Defense Innovation*, Mike Bloomberg (Jan. 13, 2025), https://www.mikebloomberg.com/news/strategic-edge-a-blueprint-for-breakthroughs-in-defense-innovation/.

[4] *JPMorgan CEO: We shouldn't be stockpiling bitcoin, we should be stockpiling bullets*, CNBC Television (May 30, 2025), https://www.youtube.com/watch?v=WHuBlRvJmdU.

[5] Patrick Tucker, *Here's How to Stop Squelching New Ideas, Eric Schmidt's Advisory Board Tells DoD*, DEFENSE ONE (Jan. 17, 2018), https://www.defenseone.com/technology/2018/01/heres-how-stop-squelching-new-ideas-eric-schmidts-advisory-board-tells-dod/145240/.

[6] Alex Karp & Nicholas W. Zamiska, *The Technological Republic* (2025).

Cold War, the United States needed a peace-dividend. That meant the companies should expect a rapidly decreasing defense budget, and that DoD would not be able to maintain procurement at a level that would sustain all the companies in the sector. The message from the Pentagon was clear: the industry should consolidate.

According to the story, following the dinner, the companies began a flurry of mergers and acquisitions. By the end of the 1990s, the once robust and healthy defense industrial base had collapsed into five enormous companies. This consolidation into what is now known as the "primes" decreased competition, stifled innovation, destroyed the industrial base, and led to a split between DoD and Silicon Valley. According to this story, the Last Supper is why the U.S. cannot produce drones or munitions or rapidly field new technology.

The problem is that the conventional wisdom is wrong. As is the case with most tidy explanations of big problems, this story is more complicated. Understanding this complexity is critically important because an inaccurate and limited assessment of the problem will lead to the wrong solutions. The Last Supper explanation for our current troubles assigns too much blame to specific decisions while ignoring other critically important trends and choices that have had equal if not more significant impact. The narrative also paints the government as the haplessly naïve and destructive villain, which leads to solutions that further undermine the state's ability to manage the complex demands placed on it. Without the full context of how today's defense procurement conditions emerged, we will continue to repeat many of the destructive policy patterns that hollowed out the state and defense industrial base and pursue solutions that will not address either's true needs.

The core myth of the Last Supper holds that without it, industry consolidation would not have occurred. That DoD policy was both causal and, depending on perspective, an act of neglect or intentional destruction. But the defense industry, like manufacturing broadly, was already under considerable stress due to globalization, financialization, and a decreasing budget. DoD's encouragement may have sped things up and precluded some necessary antitrust scrutiny, but it came amid broader market trends as an attempt to salvage critical parts of a weak industry that was mirroring the constriction and consolidation occurring in other sectors. From this starting point, the analysis centered on the Last Supper attributes much more to the dinner than is deserved.

Shifting focus away from the Last Supper is necessary to get to the real issues that have driven many problems with defense procurement. Perhaps most fundamentally: the defense sector is inherently distorted because barriers to entry are very high and information asymmetries are intentionally created to protect sensitive information, and the state capacity of acquisition has been hollowed out. Recognizing that the problems are at the structural level in the sector implies that intentional sectoral management will be needed to encourage and maintain competition – and better outcomes for the warfighters, the government, and taxpayers. Acknowledging that state capacity is a *sine qua non* for any other goal will allow the government to gauge for the first-time which policies aimed at rapid commercial adoption could actually work.

This paper outlines the myths of the Last Supper, discusses why they are wrong or incomplete, and offers a more complex—and accurate—account of the path to our current condition. This richer understanding provides a stronger foundation for defense acquisition reform. We can only successfully chart the future with a sound understanding of the past.

I. The Last Supper

The Last Supper was so named by the then-CEO of Martin Marietta, Norm Augustine, one of the dinner attendees.[7] In interviews since, Augustine has described how, at a gathering of 20 to 25 industry leaders, Deputy Secretary Perry gave a presentation with a graph showing how there were too many companies in the defense industrial base and that the smaller defense budget couldn't afford them all. Perry predicted that some companies would go out of business. He encouraged the industry leaders to consolidate to save on overhead and reduce redundancies. And while the department would not direct the mergers, he shared that DoD would provide reimbursement for some restructuring costs. As consolidation led to firings, this policy became known as "payoffs for layoffs."[8]

[7] Jonathan Chang & Meghna Chakrabarti, *'The last supper': How a 1993 Pentagon dinner reshaped the defense industry*, WBUR (Mar. 1, 2023), https://www.wbur.org/onpoint/2023/03/01/the-last-supper-how-a-1993-pentagon-dinner-reshaped-the-defense-industry.

[8] Ryan Brady & Victoria Greenfield, *Competing Explanations of U.S. Defense Industry Consolidation in the 1990s and Their Policy Implications*, Vol. 28, Contemporary Economic Policy 288, 290 (2009), https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1465-7287.2009.00181.x.

Even by the late 1990s, the dinner was viewed retrospectively as a turning point for the industry.[9] Today, the Last Supper's reputation has become entrenched, and it is often the starting anecdote for think-pieces on production, innovation, and the industrial base, if not described as the reason for the demise of all three. Commentators have asserted that the dinner "led to an inefficient and uncompetitive defense sector."[10] They have claimed that it started the shift to a small number of providers.[11] They have characterized it as a moment when Pentagon officials told the "the American defense industry essentially to take care of itself."[12] Others have blamed consolidation for a decrease in surge capacity.[13] Some have asserted that the Last Supper led to a "schism" between government and technology and "the decoupling of commercial innovation from defense and the rise of the government Monopsony."[14] The designation has even led to the concept of a "First Breakfast," now used by some advocates to describe what should come next, either denoting a "relationship reset" between government and industry or a new moment ripe for defense tech investments and start-ups to flourish—where surely a Second Coming must be at hand.[15]

It is not surprising that the Last Supper has become the marker in the sand. Perry's guidance at the time was unique in its prescriptive nature, and it occurred at a point of

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[9] John Mintz, *How A Dinner Led To A Feeding Frenzy*, WASH. POST (Jul. 3, 1997), https://www.washingtonpost.com/archive/business/1997/07/04/how-a-dinner-led-to-a-feeding-frenzy/13961ba2-5908-4992-8335-c3c087cdebc6/

[10] Elaine McCusker, et al., *Here Are 10 Ways DOGE Can Remake Our Outdated Defense Department,* THE HILL (Mar. 17, 2025), https://www.aei.org/op-eds/here-are-10-ways-doge-can-remake-our-outdated-defense-department/

[11] William C. Greenwalt, *FTC Activism and Ukraine Signal a New Era for the US Defense Industrial Base,* AEI (Aug. 11, 2022), https://www.aei.org/op-eds/ftc-activism-and-ukraine-signal-a-new-era-for-the-us-defense-industrial-base/; Also see Michael O'Hanlon & Alejandra Rocha, *Strengthening America's defense industrial base*, Brookings (Jun. 20, 2024), https://www.brookings.edu/articles/strengthening-americas-defense-industrial-base/; Doug Berenson, Chris Higgins, & Jim Tinsley, *The U.S. Defense Industry in a New Era*, War on the Rocks (Jan. 13, 2021), https://warontherocks.com/2021/01/the-u-s-defense-industry-in-a-new-era/; and Michael Brown, *A Plan to revitalize the arsenal of democracy,* War on the Rocks (May 20, 2024), https://warontherocks.com/2024/05/a-plan-to-revitalize-the-arsenal-of-democracy/.

[12] Michael E. O'Hanlon, *Achieving 'peace through strength' in the 2020s*, Brookings, (Feb. 21, 2025), https://www.brookings.edu/articles/achieving-peace-through-strength-in-the-2020s/

[13] Brown, *A plan to revitalize*, *supra* note 11.

[14] Shyam Sankar, *The Defense Reformation*, Palantir (Oct. 31, 2024), https://www.18theses.com/

[15] Josh Kirshner & Jonathan Green, *The 'Last Supper' era is over – it's time for the First Breakfast,* BREAKING DEFENSE (Dec. 18, 2024), https://breakingdefense.com/2024/12/the-last-supper-era-is-over-its-time-for-the-first-breakfast/; *From Last Supper to First Breakfast*, Palantir Blog (Sep. 8, 2023), https://blog.palantir.com/from-last-supper-to-first-breakfast-cb971128b0bf

enormous transition. The problem, however, is that the DoD policy voiced at the Last Supper was not solely responsible for these problems: there were other factors and longer-term trends at work as well. Fixing defense procurement will require appreciating and tackling these other factors and longer-term trends. If we focus primarily on the Last Supper, we will adopt the wrong solutions and end up back where we started, where we are still today – with a broken defense procurement process.

In particular, there are four myths tied to the Last Supper and the lessons learned from it. First, that but for the dinner, consolidation of the defense industry would not have occurred. Second, that the dinner and industry consolidation led to decreased excess capacity industry-wide. Third, that the dinner and subsequent consolidation led to a schism between the defense sector and the broader economy, starting the former down a path to its current inability to purchase emerging technology well or quickly. And fourth, that the other trends occurring simultaneously to industry consolidation, including privatization and workforce reduction, are ancillary to finding a solution. Dispelling these myths is essential to getting defense procurement right.

Myth 1: But for the Last Supper, the defense sector would not have consolidated.

The most prominent myth surrounding the Last Supper is that *but for* that dinner and the accompanying policy, the consolidation of the defense industry would not have happened. This explanation, however, dismisses the conditions that led to the policy itself. It ignores the effects of inherent interdependency, globalization, technological change, and financial engineering that created a sector ripe for consolidation. Consolidation of the defense industry did not start with the Last Supper. Rather, the DoD policy was an attempt to emerge from a period of tumult with an industrial base intact, and by and large, the defense industry merely mirrored the rest of the economy, as other industries specialized and consolidated facing the same pressures.

The defense industrial base as we generally recognize it today is rooted in the immediate post-World War II era. As had happened after every previous conflict, the government cancelled all its contracts with the countless private companies whose efforts had been vital to the war effort.[16] In an organized and rapid manner, military-focused production lines were turned off and companies went back to making

[16] James Nagle, A History of Government Contracting 463 (1992), https://scholarship.law.gwu.edu/history_gov_contracting/1/.

whatever they had been making prior to the war. When North Korea invaded South Korea in 1950, starting the Korean War, the U.S. deployed in support of South Korea, starting the first proxy war in the Cold War. Once the war started, American leaders quickly realized that the industrial base could not be turned back on overnight.[17] To the U.S., the Korean War became a lesson in maintaining an active defense industrial base as the U.S. assumed the mantle of a global power. And with the Soviet test of an atomic bomb in 1949 and hydrogen bomb in 1953, and the launch of the first human-made satellite Sputnik in 1957, defense procurement became focused on acquiring increasingly expensive and complex advanced technology.[18] With an intertwining of industry and the military and a singular focus on innovation, the modern era of defense procurement was born.

Following the Korean War, defense spending fell but not as precipitously as it had after World War II. With sustained funding and a recognition of the need for a defense industry comparable to other industries, U.S. companies began to view arms production and support as a standard component of their business, and many big companies—including those that had retooled their entire operations for the military during World War II—stood up defense divisions as parallel business lines to their commercial counterparts that were serving the American public.[19] Ford Aerospace was founded in 1956;[20] General Motors established the GM Defense Systems Division in 1959;[21] and General Electric formalized GE Aerospace.[22] This meant that the majority of those companies producing for the Department of Defense had other robust

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[17] Elliot V. Converse III, Rearming for the Cold War 1945-1960 94-99 (2012), https://history.defense.gov/Portals/70/Documents/acquisition_pub/OSDHO-Acquisition-Series-Vol1.pdf. See also *What Mobilization*, LIFE MAGAZINE 42-45 (Dec. 1950). https://books.google.com/books?id=yEsEAAAAMBAJ&printsec=frontcover&dq=life+magazine+December+11,+1950&hl=en&sa=X&ved=2ahUKEwiTwsSHpO3oAhXKXc0KHdcYCXAQ6wEwBHoECAUQAQ#v=onepage&q=life%20magazine%20December%2011%2C%201950&f=true

[18] Elliot V. Converse III, *Into the Cold War: An Overview of Acquistion in the Department of Defense, 1945-1958, in* Providing the Means of War: Perspectives on Defense Acquisition 1945-2000 30-31 (Shannon A. Brown ed., 2005), https://history.defense.gov/Portals/70/Documents/acquisition_pub/CMHPub70-87-1ProvidingtheMeans.pdf.

[19] Nagle, *supra* note 16, at 473.

[20] *Brochure, "The Aeronutronic Story," Circa 1961,* The Henry Ford, https://www.thehenryford.org/collections-and-research/digital-collections/artifact/488034.

[21] *A Legacy of Service,* GM, https://www.gmdefensellc.com/site/us/en/gm-defense/home/about/history.html.

[22] Mark Potts & Steven Pearstein, Martin Marietta to acquire aerospace division of GE, WASH. POST, (Nov. 24, 1992), https://www.washingtonpost.com/archive/politics/1992/11/24/martin-marietta-to-acquire-aerospace-division-of-ge/b3aac598-1325-4e11-b091-d1d607d2059b/.

commercial sectors. They were also selling these increasingly complex, capital-intensive platforms almost exclusively to the government, creating close interdependence even in the early years of the Cold War. The required investment changed the nature of the companies and the sector by wedding them to the government and vice versa.[23] But the model of the early 1950s, however, was not sustainable for complex and ongoing projects. As James Nagle observed in his *History of Government Contracting*, defense contractors in that era brought on teams for specific projects, maintained very little overhead, and relieved staff when a job was complete.[24]

Concentration, dependency, and the political power of the defense industry —contrary to popular perception — did not first emerge in the 1990s, but rather immediately in the 1950s. Permanent spending, a desire for enormously complex and innovative systems, and a single buyer have been the persistent conditions of the post-World War II procurement era. These conditions in and of themselves distort the sector and create vulnerability through dependency. Indeed, this was what President Eisenhower warned of in 1961 in his famous farewell address.[25]

By the 1970s, the U.S. defense industry became increasingly shaped by overseas competition and collaboration as foreign production capacity began to emerge. Foreign governments subsidized certain domestic industries to improve their ability to compete globally. Simultaneously, to support U.S. domestic industry in the post-Vietnam budget downturn, the Nixon Doctrine increased foreign military sales under the auspices of foreign aid. The foreign military sales, technology transfer, and licensing supported some firms in the short term, but generally did more to strengthen foreign competition from Japan, Singapore and others.[26] The Nixon Doctrine also included "co-production" efforts, allowing allied nations to build U.S. weapons systems. This was the beginning of the globalized supply chain for the defense industry.[27] Foreign competition affected the entire economy and increasing oil prices further undermined U.S. competitiveness. The Carter administration discussed the idea of engaging in

[23] Nagle, *supra* note 16, at 475.
[24] Nagle, *supra* note 16, at 474-475.
[25] Dwight D. Eisenhower, *Farewell Address* (Jan. 17, 1961), https://www.archives.gov/milestone-documents/president-dwight-d-eisenhowers-farewell-address.
[26] Shannon A. Brown & Walton S. Moody, *Defense Acquisition in the 1970s: Retrenchment and Reform, in* Providing the Means of War: Perspectives on Defense Acquisition 1945-2000 142-143 (Shannon A. Brown ed., 2005), https://history.defense.gov/Portals/70/Documents/acquisition_pub/CMHPub70-87-1ProvidingtheMeans.pdf.
[27] *Id*. at 143.

industrial policy toward the end of their term but decided against it.[28] U.S. manufacturing peaked in 1979 and began a steady multi-decade decline.[29]

Ronald Reagan became president in 1981, pledging to rebuild the military and achieve "peace through strength." This translated into enormous increases to the defense budget with 40 percent growth between 1980 and 1985.[30] As a percentage of GNP, defense spending increased from approximately 5.1 percent in 1979 to a peak of 6.6 percent in 1986. This increase in spending had a profound impact on the makeup of the domestic defense industry. Occurring alongside a recession, decreasing strength of U.S. manufacturers abroad, and increasing global competition, the boom allowed a significant portion of companies with defense divisions to become increasingly dependent on defense spending.

In 1987, the Bureau of Labor Statistics reviewed the effects of the defense buildup on industries that supplied DoD. As to be expected, industries pivoted to defense. Analyzing 537 industries, the study found that the number of industries where at least 10 percent of output went to defense either directly or indirectly more than doubled from 21 in 1977 to 45 in 1985. Within that group, there were several industries who were primarily dependent on defense spending, including shipbuilding, ordnance, missiles, and aircraft engines. Of these narrower and highly dependent industries, the rapid increase in procurement spending combined with a shrinking commercial market increased defense dependency and made the industries more vulnerable to fluctuations in the defense budget.[31]

For example, in 1981, Reagan announced as part of rebuilding the military, the administration would pursue a 600-ship Navy, an increase of 140 ships.[32] Accordingly, Navy ship procurement spending rose. The same year, the administration ended the construction differential subsidy (CDS), which had allowed U.S. shipyards to compete with foreign shipyards by covering 50 percent of the cost difference between U.S. and

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[28] Jeff Faux, *Industrial Policy: The Road Not Taken*, THE AMERICAN PROSPECT (Dec. 21, 2009), https://prospect.org/special-report/industrial-policy-road-taken/

[29] Katelynn Harris, *Forty years of falling manufacturing employment*, U.S. BUREAU OF LABOR STATISTICS (Nov. 2020) https://www.bls.gov/opub/btn/volume-9/forty-years-of-falling-manufacturing-employment.htm.

[30] Stephen V. Reeves, *The Ghosts of Acquisition Reform: Past, Present and Future*, National Defense University, 21 (1996), https://apps.dtic.mil/sti/tr/pdf/ADA314891.pdf.

[31] David Henry & Richard Oliver, *The defense buildup, 1977–1985: effects on production and employment*, 110 Monthly Lab. Rev. 3, 4-5 (Aug. 1987), https://www.bls.gov/opub/mlr/1987/08/art1full.pdf.

[32] Norman Polmar, *The U. S. Navy: Toward a 600-Ship Fleet*, Proceedings, Feb. 1982., available at https://www.usni.org/magazines/proceedings/1982/february/u-s-navy-toward-600-ship-fleet

foreign shipyards since the 1930s.[33] Foreign governments continued to subsidize their domestic industries and U.S. shipyards were unable to compete. Commercial ship production declined rapidly while military production rose. By 1985, 93 percent of "new ship construction and repair and renovation work was produced for the military."[34]

Similarly, the aerospace industry increased reliance on the military as commercial demand declined. Commercial demand declined due to increased globalization and less expensive imports and domestic recession, but was largely offset in sectors tied to defense by increased defense spending. For example, as commercial airlines faced financial troubles and orders dropped, defense aircraft production increased 80 percent between 1980 and 1985. By 1985, the share of aircraft directed to defense sector increased from 43 percent in 1977 to 66 percent in 1985.[35] Several other industries followed this pattern: decreased commercial demand, increased defense demand, leading to increased sector reliance on defense spending. This pattern carried over to employment as well, with defense job increases masking the decline in commercial manufacturing employment. Indeed, despite the huge increase in spending, total employment in the five primary defense hardware industries only increased 172,000 jobs from 1980 to 1985 as defense gains were offset by commercial losses.[36]

The entire U.S. industrial base shrank at this moment due to consolidation and sector exit. In 1989, the Center for Strategic and International Studies (CSIS) published a study called "Deterrence in Decay: The Future of the U.S. Industrial Base."[37] The study estimated "between 1982 and 1987 the number of companies providing goods to the Defense Department in key defense sectors dropped 67 percent, from 118,489 to 38,007."[38] There were also substantial sector losses, ranging from non-powered valve suppliers where suppliers dropped from 1310 to 420 to shipyards "which fell by 50 percent and the entire shipbuilding industry's skilled labor force contracted by 30

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[33] Aaron Klein, *Decline in U.S. Shipbuilding Industry: A Cautionary Tale of Foreign Subsidies Destroying U.S. Jobs*, Eno Center for Transportation (Sep. 1, 2015), https://enotrans.org/article/decline-u-s-shipbuilding-industry-cautionary-tale-foreign-subsidies-destroying-u-s-jobs/

[34] Henry & Oliver, *supra* note 31at 5.

[35] Henry and Oliver, *supra* note 31 at 6.

[36] Henry and Oliver, *supra* note 31 at 8.

[37] Philip L. Shiman, et al, Reform and Experimentation After the Cold War 1989-2001492 (2022), https://history.defense.gov/Portals/70/Documents/acquisition_pub/OSDHO-Acquisition-Series-Vol.5.pdf?ver=y-JEIUVb3yVu8p9zBI-OFA%3D%3D.

[38] *Id.*

percent."[39] Increased defense spending was unable to compensate for commercial contraction.

In the globalized economy, prime contractors themselves also shifted to purchasing supplies and parts from overseas companies. By the late 1980s, senior defense officials began to recognize and become concerned by the private sector movement to offshore procurement for much of the defense supply chain. Finding lower costs and sufficient quality, defense firms were dependent on sole-source foreign procurers for an increasing number of weapons systems components and subsystems. For example, a Congressional investigation found that the Navy's Sparrow III air-to-air missile was dependent on 16 foreign-produced parts, ranging from integrated circuits and transistors to memory chips, without which it could not be built.[40] Domestic firms faced foreign competition at every level, leading to contraction, offshoring, and defense spending dependency.

And financial engineering entered the space. Norm Augustine has written that the concerns for the defense industry started before the fall of the Soviet Union. "One could have read danger signs in the tea leaves in the early 1980s, when a new and ominous term entered the business lexicon: *financial engineering*."[41] In discussing takeover attempts of both Martin Marietta and Lockheed in the 1980s—companies that would unite under his leadership in the following decade—Augustine notes that although both maintained their independence for the time being, they took on more debt and became more dependent on defense.[42]

By the time George H. W. Bush became president, America's commercial industrial base had significantly declined, the supplier base had shrunk, and those left had increased their dependency on defense spending and taken on more debt. There was widespread recognition that the defense industrial base was declining and in need of, as the Defense Science Board wrote in 1988, "new policies which link military and industrial strategy to assure the existence of the industrial and technological resources on which our military strategy relies."[43]

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[39] *Id.* at 494.
[40] Jacques S. Gansler, *Affording Defense* 270-271 (1989).
[41] Norman R. Augustine, *Reshaping an Industry: Lockheed Martin's Survival Story*, Harv. Bus. Rev., May-June 1997, https://hbr.org/1997/05/reshaping-an-industry-lockheed-martins-survival-story.
[42] *Id.*
[43] Defense Science Board, *The Defense Industrial and Technology Base*, Office of the Under Secretary of Defense for Acquisition 1 (1988), https://apps.dtic.mil/sti/pdfs/ADA212698.pdf.

These were the conditions when DoD's budget began to fall after the high-water mark in 1985. Spending started to decrease at the end of the Reagan administration and fell 17 percent under the H.W. Bush administration.[44] The public demanded a peace dividend as the Soviet Union collapsed and the Cold War ended.[45] It was clear that the declining Pentagon budget would impact procurement, and thereby industry. The Reagan administration attempted to sidestep the problem by refusing to cancel any programs but rather extending their timelines. Under President Bush, the budget constraints were more acute, and Secretary Cheney wanted to eliminate entire programs but was stymied by Congress.[46]

The writing, however, was on the wall, and it was clear that big change was coming to the defense industry. In 1992, Under Secretary of Defense for Acquisition Donald Yockey told a group of defense executives that the department would be decreasing production and mergers and industry-wide restructuring was inevitable. "Don't expect the DoD to choose the winners or losers. [T]he Defense Department will not—and should not—dictate who will survive and who will not."[47] This was essentially the same message Perry delivered a year later, though Perry provided encouragement rather than lament.

President Clinton wanted bigger defense budget cuts and a bigger peace dividend. The budget he requested and that Congress granted for fiscal year 1994 represented a real cut of almost 8 percent. Instead of canceling any programs outright, the Clinton administration put them on extended production timelines and even resurrected some that the previous administration had tried to eliminate.[48]

The important difference between the Bush and Clinton administrations, however, was the degree to which they believed that concerns with the industrial base warranted or required government intervention. The Bush administration generally, and Cheney specifically, felt that the government did not need to be involved. The Clinton administration felt intervention was critical. Ironically, it was a belief that the government needed to step in and help industry preserve some research and

[44] Shiman et al., *supra* note 37, at 85.
[45] Shiman, et al., *supra* note 37, at 7.
[46] Shiman, et al., *supra* note 37, at 89.
[47] Shiman, et al., *supra* note 37, at 137.
[48] Shiman, et al., *supra* note 37, at 11.

development, critical capabilities, and production that led Perry to a policy of explicitly encouraging consolidation.[49]

The myth of the Last Supper holds that if not for the dinner, the industry would not have consolidated; that the policy itself was both causal and an act of neglect. But the defense industry was already under considerable stress with globalization, financialization, and an already shrinking budget taking a toll. DoD's encouragement may have accelerated it, and helped some mergers avoid antitrust challenges that were warranted, but it was an attempt to salvage critical parts of a weak industry that was following broader market trends.

In other words, defense consolidation should not be attributed to DoD policy changes alone. Rather, it was driven by the same factors that led many other industries to consolidate in the 1990s. Academic research substantiates this reading of the history. Analysis by scholars Ryan Brady and Victoria Greenfield "supports the general view that the consolidation of the defense industry would have occurred with or without DoD's explicit approval."[50] Their study built on earlier research by Nayantara Hensel, which found a stronger correlation between defense mergers and mergers in the overall economy than between defense mergers and DoD outlays.[51] The research suggests that consolidation was more closely related to broader economic conditions than DoD policy or declining defense spending.

Myth 2: The Last Supper ended surge capacity.

The second myth of the Last Supper is that it eroded the surge capacity of the defense industrial base. However, just as the Last Supper did not directly cause industry-wide consolidation, it did not end surge capacity. Rather, the drive for efficiency – the prioritization of cost-savings and widespread adoption of just-in-time business practices – created a fragile supply chain and led the government to again dismantle (as it had done after prior wars) and privatize its organic industrial base.

The tension between efficiency and reserve strength is not new. Before World War II, the Army and Navy relied heavily on in-house research and development and

[49] Shiman, et al., *supra* note 37, at 491, 510.
[50] Ryan Brady & Victoria Greenfield, *Competing Explanations of U.S. Defense Industry Consolidation in the 1990s and Their Policy Implications*, 28 Contemporary Economic Policy 288, 290 (2010).
[51] Nayantara Hesel, *An empirical analysis of the patterns in defense industry consolidation and their subsequent impact*, Proceedings of the Annual Acquisition Research Program NPS, at 32 (2007).

production capabilities for most weapons. This was largely done through government laboratories, military arsenals, and public shipyards.[52] The shift during World War II to a much closer relationship with private industry inherently changed the nature of procurement to one reliant on non-government entities. In that shift, the government turned to industry to acquire more and more, relying less on organic capacity.

To illustrate the point, consider the capacity the government once maintained for both munitions and shipbuilding.

The military has learned the importance of an organic munitions industrial base several times. During the Civil War, the Army relied on private contractors for gunpowder. The contractors could not keep pace with demand, and the War Department was forced to turn to international suppliers.[53] As World War I started, the U.S. still relied on some foreign firms, having only six government arsenals and two private contractors. By 1917, after a domestic buildup, that footprint had expanded to "20 arsenals and nearly 8,000 ordnance-related manufacturing plants."[54] Following the war, however, the production lines were left to disrepair. In the lead-up to World War II, the U.S. again found it had capacity to produce only five percent of needed munitions. The remaining government-owned and -operated facilities were then able to instruct private industry how to manufacture munitions, building an enormous network of hybrid plants. Indeed, the bulk of the production effort then came through plants that the government owned but that were operated by the private sector.[55]

After World War II, the U.S. again abandoned its munitions plants, and then required funding to bring them back online for the Korean War. After the Korean War, there was a push to privatize these facilities, despite articulated opposition within the Army. In 1955, the head of Army ordnance advocated against privatization, arguing that the private sector would not maintain the arsenals because they would not turn the necessary profit.[56] However, the Army moved forward with offloading the plants, and by 1965, the Army retained 26 of 40 ammunition plants with only eight in operation. Per the Army's official history, "the same issues that caused shortages in 1950

[52] Converse III, *supra* note 17, at 38-39.
[53] Scott S. Haraburda, *Convention Munitions Industrial Base*, The Land Warfare Papers No. 113, at 2 (2017) https://www.ausa.org/sites/default/files/publications/LWP-113-Conventional-Munitions-Industrial-Base.pdf.
[54] *Id.* at 3.
[55] *Id.* at 3-4.
[56] JMC History Office, *History of the Ammunition Industrial Base*, Joint Munitions Command, at 22-23 (Dec. 2010) https://www.jmc.army.mil/Docs/History/History_of_the_Ammunition_Industrial.pdf.

reappeared in 1965," as increasing numbers of U.S. soldiers were fighting in Vietnam.[57] The Army went through a similar build-up process for the Vietnam War, but this time without World War II's benefit of allies fighting first and having a production runway, and without the Korean War's benefit of a large stockpile.[58] Following Vietnam, there was another push to privatize the capabilities, and again warnings went unheeded.[59]

Attempts at modernizing the arsenal and ammunition plant industrial base continued during the 1970s and 1980s, but, at the end of the Cold War, they picked up speed with successive rounds of domestic military base closures in 1989, 1991, 1993, and 1995, resulting in the shuttering of a number of facilities. From 1990 to 2001, relevant government facilities were reduced to 13 from 28 and contractor facilities to 69 from 163.[60] During this time, RAND also conducted a decade-long study on how best to privatize the remaining facilities, both plants and arsenals.[61] The resulting report recommended substantially greater privatization of the already-diminished government facilities.[62]

Shipyards followed a similar arc as arsenals. Before World War II, a considerable percentage of ship research, design, and construction had been done in public shipyards. After the war and amid the new era of procurement, the Navy faced pressure to privatize, too. Between 1953 and 1960, private shipyards increased their share of new naval ship construction and repair from 55 to 85 percent.[63]

This push to shift work away from the public shipyards to private yards continued in the 1960s. In 1964, Congress mandated that 35 percent of naval maintenance work be done in private shipyards, and in 1967, they said that all new construction had to be done in private yards. Public yards closed and more work shifted to private ones, accompanied by decreased spending on ship procurement during the Vietnam War. The debate continued through the 1970s, even as it was clear that private shipbuilders

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[57] *Id.* at 24.
[58] *Id.* at 27.
[59] *See Id.* at 27 (A logistics review board commented on the likely post-war push to cut budgets and privatize munitions production, "Profit motivations of private industry does not argue for retention of this equipment in peacetime; hence, the production base tends to evaporate with the cessation of demand.")
[60] *Id.* at 55.
[61] *Id.* at 51.
[62] W. Michael Hix, et al, *Rethinking Governance of the Army's Arsenals and Ammunition Plants*, xxiv (2003).
[63] Converse III, *supra* note 13, at 39-40.

were not bidding on naval ship construction, causing at least one Navy admiral to suggest the Navy get back into the business of shipbuilding.[64]

Concurrent with privatization, the commercial shipbuilding industry also transformed. In 1981, the Reagan administration ended the construction differential subsidy which had covered 50 percent of difference in domestic and foreign construction costs.[65] Facing steep foreign competition, the U.S. commercial shipbuilding industry collapsed in the 1980s, and, as discussed earlier in this paper, what was left of a previously semi-diversified industry became consolidated and highly dependent on defense spending.[66] Three major shipbuilders left the industry in the early 1980s, leaving work in only six shipyards, which still relied on government contracts.[67] The commercial shipping industry has never recovered, despite the protections of the Jones Act.[68]

Meanwhile, as the government found ways to cut costs, businesses were integrating new management and production strategies focused on efficiency and cost-savings that the government hoped would obviate the need for latent capacity by either. Toyota is attributed with creating just-in-time manufacturing, a management tool focused on efficiency and reducing costs. Instead of keeping reserves of parts, they would arrive at the moment they needed to be used. This required less inventory kept on hand (and on the books), less space, and fewer people. Costs decrease. Just-in-time manufacturing became popular in the U.S. in the late 1970s and spread across industries, including the defense sector. Its popularity has barely waned since—perhaps until skeptics emerged in the wake of the Covid-19 pandemic, when some attributed the approach to the fragile supply chains that the global health crisis exposed across the economy. Though defense analysts have rightly pointed out that industry has eliminated its excess capacity, the culprit is business theory and government that needed to believe in that theory to justify procurement incentives

[64] Clinton H. Whitehurst Jr., *Is there a Future for Naval Shipyards?*, PROCEEDINGS, Apr. 1978, https://www.usni.org/magazines/proceedings/1978/april/ls-there-future-naval-shipyards.
[65] Ted Williams, *Op-ed: The degradation and recovery of the U.S. shipbuilding industry*, MARINELOG (Dec. 3, 2024) https://www.marinelog.com/views/op-ed-the-degradation-and-recovery-of-u-s-shipbuilding/.
[66] Henry & Oliver, *supra* note 31 at 5.
[67] Tim Colton & LaVar Huntzinger, *A Brief History of Shipbuilding in Recent Times*, CNA, at 18 (2002), https://www.cna.org/archive/CNA_Files/pdf/d0006988.a1.pdf.
[68] Williams, *supra* note 65.

and processes that reward the least-cost option at the expense of everything else.[69] In short, we have the capacity we pay for.[70]

This does not have to be the case and wasn't always. The Army Air Corps Act in 1926 gave the Army and Navy the ability to focus on performance rather than cost in procurement decisions, and performance was a focus immediately following World War II.[71] Yet in the 1960s, Secretary of Defense Robert McNamara and his acolytes shifted focus to fixing cost overruns, advocating for fixed-price contracts to incentivize efficiency and shift innovation risk to companies.[72] The contracts did not have the intended effects and led to underbidding and, perversely, cost overruns. President Nixon, determined to out-do McNamara's so-called "Whiz Kids," named Pentagon leaders who would reform the steps of the previous administrations and advocate for cost-plus contracts. Within a decade, however, fixed price contracts came back into fashion as a tool of the Reagan administration's efficiency push.[73] In response to cost overruns in 1988, Congress prohibited DoD from engaging in fixed-price contracts above $10 million unless they were shown to be low risk. But fixed-price contracts remained the preferred approach from the 1990s through today. Indeed, fixed-price incentive contracts were recommended under the Obama administration again as a

[69] See Cynthia R. Cook & Audrey Aldisert, *Don't Blame 'Just-in-Time' Production for Challenges in the U.S. Manufacturing Industrial Base*, CSIS (July 19, 2023), https://www.csis.org/analysis/dont-blame-just-time-production-challenges-us-manufacturing-industrial-base; Cynthia R. Cook, *Reviving the Arsenal of Democracy: Steps for Surging Defense Industrial Capacity*, CSIS (Mar. 14, 2023), https://www.csis.org/analysis/reviving-arsenal-democracy-steps-surging-defense-industrial-capacity.
[70] John A. Tirpak, *Defense Industry: Want Surge Capacity? Pay For It*, Air and Space Forces Magazine (Feb. 28, 2025), https://www.airandspaceforces.com/industry-reps-surge-capacity/.
[71] Reeves, *supra* note 30 at 8; Shannon A. Brown, *Introduction, in* Providing the Means of War: Perspectives on Defense Acquisition 1945-2000 6-7 (Shannon A. Brown ed., 2005), https://history.defense.gov/Portals/70/Documents/acquisition_pub/CMHPub70-87-1ProvidingtheMeans.pdf.
[72] Walter S. Poole, *Acquisition in the Department of Defense, 1959-1968: The McNamara Legacy, in* Providing the Means of War: Perspectives on Defense Acquisition 1945-2000 79-80 (Shannon A. Brown ed., 2005), https://history.defense.gov/Portals/70/Documents/acquisition_pub/CMHPub70-87-1ProvidingtheMeans.pdf.
[73] *Id.* at 80; Gregory Sanders & Alexander Holderness, *Inflating the Risk? Contracting in the Face of Inflation*, CSIS (Dec. 1, 2022), https://www.csis.org/analysis/inflating-risk-contracting-face-inflation.

cost-saving tool.[74] Today, most major defense acquisition programs are done through some form of a fixed-price contract, firm-fixed or fixed-price-incentive.[75]

Fixed-price popularity has often coincided with a government desire to reduce overall defense spending, except during the Reagan administration. By pushing risk onto companies, the contracts incentivize companies to streamline and reduce costs, including excess capacity. Cost-plus contract structures also incentivize streamlining to reduce costs, though the government shares the risk. Neither contract structure, however, includes requirements for excess capacity, so, by exclusion, they incentivize against it.

In short, surge capacity did not deplete because of the Last Supper. Industry consolidation and the decline of surge capacity share similar roots. It is gone due to a slow-burn over decades, a series of generational and repeated choices—choices that prioritized cost over capacity in the structure of procurement contracts, and efficiency over capacity in the maintenance of the organic industrial base, as well as a preference for private contracts over public production.

Myth 3: The Last Supper was the source of a break with the innovative commercial sector.

The third myth is that the Last Supper is responsible for an alleged break between the defense industry and the world of emerging technology. Palantir's Chief Technology Officer, Shyam Sankar, is but one exemplar of this viewpoint, having written in 2024 that the "most important consequence of the Last Supper wasn't a reduction in competition in the Defense Industrial Base, but the decoupling of commercial innovation from defense and the rise of the government Monopsony." He blames the dinner for what he calls a "schism" that "pushed out the crazy Founders and innovative engineers" from the defense space.[76] This myth rests on the premises that the Last Supper caused consolidation, that consolidation led to an isolated defense sector, and

[74] Jacques S. Gansler, et al, *Fixed-Price Development Contracts: A Historical Perspective*, UMD CTR. FOR PUBLIC POLICY AND PRIVATE ENTERPRISE, at 3 (2012).
[75] *Fixed-Price-Incentive Contracts: DoD Has Increased Their Use but Should Assess Contributions to Outcomes,* GAO, (2021), https://www.gao.gov/products/gao-21-181; *Cost-Type Contracts: Procedures Needed for Sharing Information on Contract Choice among Military Departments*, GAO, (2020), https://www.gao.gov/products/gao-20-352.
[76] Shyam Sankar, *The Defense Reformation*, Palantir (Oct. 31, 2024). https://www.18theses.com/.

that industry isolation and concentration are why it's hard for the government to acquire the newest technology.

First, as discussed previously, consolidation was well underway by the time the Last Supper occurred in 1993. Second, like consolidation, the isolation of the defense industry did not start in the 1990s. Through the 1980s, there were two types of manufacturing firms that contracted with the Defense Department: those for whom DoD was their primary customer, and those who were largely commercial-facing but maintained defense divisions. While the latter were less vulnerable to defense budget shifts (which in bountiful years hid systemic erosions in their commercial enterprises), commercial and defense production were still separated at the plant and division level.[77] In 1989, the defense industry was considered about as concentrated as any other industry on the surface, but specific weapon areas were much more concentrated than the general economy. For example, the top four companies held 100 percent of surveillance and detection satellite business, 99 percent of nuclear submarines, 97 percent of space boosters, and 97 percent of fighter aircraft, attack aircraft, and missile inertial guidance systems. The industry has high barriers to entry and exit.[78] Across the board, defense firms were weak "with heavy debt, difficulty of borrowing, considerable excess capacity, low cash generation, high (and growing) risks, old production equipment, too little capital investment, relatively low productivity, mixed quality, and rapidly rising prices."[79]

As a result, the number of defense firms had started to fall during the 1980s, but commercial-facing firms with defense divisions were also pulling back. For example, Chrysler sold its defense division in 1982 to General Dynamics,[80] and by the late 1980s, IBM and other firms, for whom DoD was one of many customers, were choosing not to compete for Pentagon contracts to reduce business risk.[81] Consolidation did not cause isolation. Rather, the weakness of the industry resulted in both consolidation and isolation as paths toward efficiency and survival.

The third component of this claim – that the isolation and concentration in the industry creates risk – is certainly valid. These concerns are also not new and were of prominent

[77] Gansler, *supra* note 40, at 244.
[78] *Id.* at 246.
[79] *Id.* at 256.
[80] Mike Lofgren, *Why Can't America Build Enough Weapons?,* WASH. MTHLY. (Jun, 23, 2024), https://washingtonmonthly.com/2024/06/23/why-cant-america-build-enough-weapons/.
[81] Gansler, *supra* note 40 at 256.

interest in the 1990s. In fact, rather than turning away from commercial technology, the Clinton administration championed, possibly more than any administration before or after, closer ties between the military and commercial industry: increasing acquisition of commercial technology with fewer military specifications, cutting regulations, and developing a clearer path to onboard the newest technology.[82] Their reform platform was essentially everything on the wish list of tech enthusiasts today.[83]

The Clinton-era acquisition reform plan came from the reform effort of the Reagan administration, which itself had roots in the Nixon administration's reactionary reforms. Determined to undo McNamara's acquisition policies, Nixon appointed one of the co-founders of Hewlett-Packard, David Packard, as Deputy Secretary of Defense to lead DoD acquisition reforms. Packard not only advocated for cost-plus contracting, but also coined terms like "fly before you buy" and encouraged source selection reform through simplifying requests for proposals and the professionalizing of the acquisition workforce.[84]

Packard's Pentagon tenure was relatively short-lived—he served for less than three years, compared to McNamara's more than seven years as defense secretary—but in 1986, the co-founder of Silicon Valley's first start-up returned to the defense acquisition world.[85] Following years of congressional scrutiny into fraud and waste in defense contracts in the early 1980s, the Reagan administration established a Blue Ribbon Commission on Defense Management, with Packard as its chair and thus gave the group its nom de plume. The Packard Commission's acquisition component was led by Packard's fellow Stanford University alumnus, William Perry—the Clinton-era Deputy Secretary of Defense (and later Secretary of Defense) who co-hosted the Last Supper, but whose role in the Packard Commission is often forgotten by the dinner's mythologizers. The commission pushed to make acquisition work more like a commercial undertaking. Its final report recommended commercial competition, deference to market forces rather than government intervention, prototyping, and priority given to use of goods and services "off the shelf" or available on the

[82] Shiman et al., *supra* note 37, at 168-173.
[83] *See* Shiman et al., *supra* note 37, at 168-173, and *Senate Hearing on Defense Innovation and Acquisition Reform*, THE UNION HERALD (Jan. 28, 2025). https://www.youtube.com/watch?v=oaTUafl-8sk.
[84] Reeves, *supra* note 30 at 16; Brown & Moody, *supra* note 26, at 148.
[85] *HPE History*, HP https://www.hpe.com/us/en/about/history.html.

commercial market.[86] The Reagan administration began implementation immediately with the National Security Directive 219, but their effort lacked teeth and relied primarily on reports. A forceful attempt at adoption of the Packard recommendations did not occur until Perry returned to the Pentagon and assumed the mantle.[87]

A decreasing budget meant the Pentagon had to think through a strategy for systems acquisition and readiness that was not dependent on production alone. The George H.W. Bush administration conceived of a strategy to integrate commercial and military production by encouraging the development of dual-use technology and increasing procurement from non-defense firms. This pursuit of civil-military industrial integration then became the cornerstone of Clinton's Pentagon approach.[88] The idea was to increase government procurement from non-defense firms, especially of products that could be used without adjustment for a military user, and to push the traditional defense firms to develop commercial arms. Beyond improving the defense sector's resilience, this integration, they hoped, would improve DoD access to the newest emerging technologies, which for the first time were emanating in from the private sector rather than within government or with timely support from the government system.[89] (As others have written, the existence of earlier-stage government investments that were needed to enable or unlock such technological breakthroughs was often forgotten or elided at the time.[90])

Congress also wanted to lower barriers to entry for non-defense commercial firms. The Section 800 Panel, an advisory group of military and civilian legal experts commissioned by Congress to streamline the acquisition process, recommended simplified acquisition laws and implementation flexibility, leading to the 1994 Federal Acquisition Streamlining Act (FASA). The bill decreased requirements for commercial

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[86] Andrew J. Butrica, *An Overview of Acquisition, 1981-1990, in* Providing the Means of War: Perspectives on Defense Acquisition 1945-2000 212-213 (Shannon A. Brown ed., 2005), https://history.defense.gov/Portals/70/Documents/acquisition_pub/CMHPub70-87-1ProvidingtheMeans.pdf.

[87] *Id.* at 215-217.

[88] Shiman et al., *supra* note 37, at 137.

[89] Shiman et al., *supra* note 37, at 162-163.

[90] *See* Mariana Mazzucato, *The Entrepreneurial State* 1 (2011). Mazzucato writes, "The preacher of the small State, free-market doctrine has for decades been directing large public investment programs in technology and innovation that underlie its past and current economic success. From the Internet to biotech and even shale gas, the US State has been the key drive of innovation-led growth – willing to invest in the most uncertain phase of the innovation cycle and let business hop on for the easier ride down the way."

companies, expanded what was considered a commercial item, raised the contractual dollar amount below which more simplified acquisition procedures could be used, and reduced some competition requirements for large platform acquisition.[91] It also established in law a preference for commercial goods, directing procurement officers to use them "to the maximum extent practicable."[92] The Pentagon's deputy under secretary for acquisition at the time said "that FASA gave the Defense Department '95 percent' of what it needed to reengineer its business processes."[93]

Despite this and other statutory reforms, including the Clinger-Cohen Act of 1996, which aimed to simplify information technology acquisition,[94] and a continued preference for commercial goods and commercial buying practices in every administration since, DoD is still unable to access emerging technology quickly. This continued failure of these policies to diversify the defense contracts base could be due to several possible reasons: (1) these reforms didn't go far enough and more is needed to actually entice commercial firms; (2) the structure of the sector as a monopsony-oligopoly prevents any of the reforms from working well enough; (3) it is harder to bridge the gap between the commercial and the defense sectors than commentators would like; or (4) implementing complex reforms and being able to smartly buy the newest technologies require a robust, skilled workforce.

Those who emphasize the Last Supper as the origin point of this breakdown tend to speak about sectoral structure barriers while advocating for extensions of commercial buying reforms that have not succeeded in the last 30 years.[95] Rather than doubling-down on these policies, however, addressing this root concern will require a combination of policies to address the structural problems in an inherently distorted defense sector[96] and to make the government a better buyer.[97] This leads to the final myth: that state capacity is irrelevant, or at least not determinative.

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[91] Shiman et al., *supra* note 37, at 168.
[92] 41 U.S.C. § 3307.
[93] Shiman et al., *supra* note 37, at 172.
[94] Shiman et al., *supra* note 37, at 173.
[95] *See generally* Lauren C. Williams, *Eighteen ways Palantir wants the Pentagon to change*, DEFENSE ONE (Dec. 3, 2024), https://www.defenseone.com/defense-systems/2024/12/eighteen-ways-palantir-wants-pentagon-change/401400/.
[96] Gansler, *supra* note 40, at 244.
[97] Donald Kettl, *Sharing Power: Public Governance and Private Markets*, BROOKINGS INST., at 20 (1993); Jennifer Pahlka, *Recoding America: Why Government in Failing in the Digital Age and How We Can Do Better*, 105 (2003).

Myth 4: The real problem is that the government needs to run more like a business.

This biggest problem with the myths of the Last Supper is not what the narratives emphasize, but what they don't. By focusing on consolidation, this account of today's problem ignores the degradation of state capacity as a culprit. The gradual decline of state capacity is visible in the historical account of the divestment from and privatization of the organic industrial base. But the 1980s and 1990s were also marked by two compounding and parallel efforts. The first was an effort to privatize services previously provided directly by the government. The second was an effort to downsize the federal civilian workforce. For defense acquisition, this meant more, and more complicated, contracts to be administered by fewer people, severely hindering even the best laid plans of well-intentioned procurement reformers.

The desire for small and limited government has deep roots in the American political tradition. As discussed in reference to the munitions industrial base, the government has relearned the dangers associated with shedding state capacity after World War I, World War II, the Korean War, the Vietnam War, and today. Similarly, shipyards were once recognized as a national strategic asset worth state funding to maintain and preserve, but the reasoning and assumptions for keeping capabilities internal to the government were forgotten or ignored, and again the government was forced to relearn them. The crisis in shipbuilding has recently gained political attention as evidenced by President Trump's April 2025 executive order titled "Restoring America's Maritime Dominance" and the bipartisan, bicameral introduction of the SHIPS for America Act.[98]

The push to privatize government functions following World War II—a period of substantial government growth—mirrored past tendencies. The government provided more services and leaders started to question if it should, and for the second half of the 20th century cut personnel and moved service provision out of the government to

[98] *Executive Order: Restoring America's Maritime Dominance*, The White House (Apr. 9, 2025), https://www.whitehouse.gov/presidential-actions/2025/04/restoring-americas-maritime-dominance/; *Sen. Kelly, Sen. Young, Rep. Garamendi, Rep. Kelly Introduce SHIPS for America Act to Boost American Shipbuilding, Strengthen US Economy and National Security,* Office of Senator Mark Kelly (Apr. 30, 2025), https://www.kelly.senate.gov/newsroom/press-releases/sen-kelly-sen-young-rep-garamendi-rep-kelly-introduce-ships-for-america-act-to-boost-american-shipbuilding-strengthen-us-economy-and-national-security/.

the private sector. These two efforts together have had a substantial impact on defense acquisition.

First, mirroring the rationale that led to the privatization of the munitions and shipbuilding base, President Eisenhower declared in 1955 that the federal government would look first to the private sector when procuring any service or product.[99] This policy was later formalized by the Bureau of the Budget with Circular A-76, which directed agencies to define positions as "inherently governmental" or otherwise open them up to private sector competition. The Reagan administration then used this provision to initiate a major privatization effort, starting with the Department of Defense.[100] From 1981 to 1987, over 37,000 DoD jobs in cafeteria service, maintenance, laundry services, supply, and countless more were privatized with the help of Office of Management and Budget incentives.[101]

Though the stated goal was cost savings, these savings were ultimately difficult to find. For example, logistics support to military bases was one of the services put forward for consideration under A-76. In 1982, Fort Eustis in Virginia awarded a contract to Northrop Worldwide Aircraft Services to provide food, supply, transportation, maintenance services, and laundry services.[102] Per the cost comparison structure of the A-76 program, Northrop won the contract by submitting a bid $13.9 million under the government employee estimate. However, Northrop underbid for the cost-plus contract and in the end Northrup's services cost the government $600,000 more than it would have with government employees. There was another cost too: by the time the contract ended, the government had shed all of its equivalent talent and was unable to serve as the truly-lowest-cost competitor for the follow-on contract.[103]

Despite contrary evidence, the Clinton administration continued the privatization drive with similar enthusiasm, looking for even bigger targets. The Department of Defense even published a report on the topic called "Improving the Combat Edge Through Outsourcing" that lauded the opportunities for savings through privatization and outsourcing.[104] For example, the Clinton administration privatized several military

[99] Kettl, *supra* note 97, at 41.
[100] *Id.* at 42.
[101] *Id.* at 47.
[102] *Id.*.at 52.
[103] *Id.* at 52-53.
[104] *Improving the Combat Edge Through Outsourcing*, U.S. Department of Defense, (1996), https://www.esd.whs.mil/Portals/54/Documents/FOID/Reading%20Room/Acquisition_Budget_and_Financial_Matters/Improving_the_Combat_Edge_Through_Outsourcing.pdf?ver=2017-05-15-134307-267.

maintenance depots, including Newark Air Force Base in New Jersey, McClellan Air Force Base in California, and the San Antonio Air Logistics Center in Texas.[105] In all three cases, interestingly, privatization was influenced by political considerations. The bases were going to be closed, and privatization created an avenue to keep a percentage of the jobs in the area rather than fully consolidate by moving to the other military depots.[106]

The Clinton administration also took A-76 one step further and codified the principle in the Federal Activities Inventory Reform (FAIR) Act of 1998. This bill requires an annual inventory of positions at every government agency to identify which are "inherently governmental" or those, all other, that should potentially be considered for privatization.[107] While A-76 has not been used to compete government services since 2009, the FAIR Act still requires agencies to provide to the White House Budget Bureau's successor, the Office of Management and Budget, lists of the "inherently governmental" and commercial activities performed by federal employees.[108]

The pursuit of small government also manifested in the stagnation and downsizing of the federal civilian workforce, including the acquisition workforce. Starting in the 1970s, contracted services expanded, but the workforce that had to manage them did not. A 1981 GAO report highlighted increasing concern with the growth of the contract workforce, the breadth of responsibilities, and cost. The report stated that in the 1970s, federal expenditures increased 195 percent, the civilian workforce decreased, and to make up the gap, private-sector contracts increased by 28 percent.[109]

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[105] Bradley Graham, *Privatizing Maintenance in the Military*, WASH. POST, Mar. 31, 1996, https://www.washingtonpost.com/archive/politics/1996/03/31/privatizing-maintenance-in-the-military/58b4d9af-1473-471c-8358-e0a9a4acf0dc/.

[106] Suzann Chapman, *The Push to Privatize*, AIR AND SPACE FORCES MAGAZINE, Aug. 1, 1996, https://www.airandspaceforces.com/article/0896privatize/.

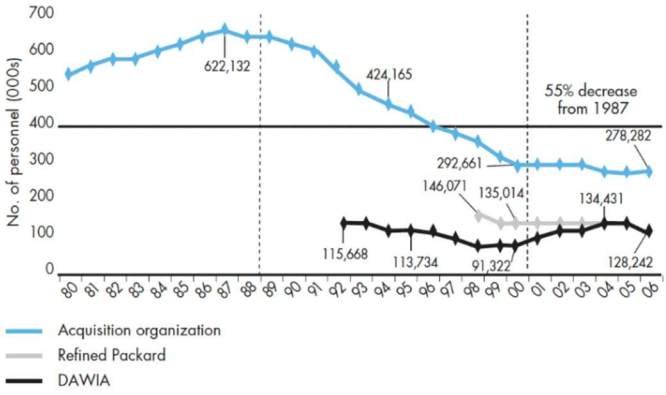
[107] Louis Jacobson, *Clinton signs privatization bill*, GOVEXEC, Oct. 22, 1998, https://www.govexec.com/federal-news/1998/10/clinton-signs-privatization-bill/4725/.

[108] *E.g. FAIR Act Inventory*, U.S. Dept. of Justice. https://www.justice.gov/jmd/fair-act-inventory.

[109] *Civil Servants and Contract Employees: Who Should Do What for the Federal Government*, GAO, at ii (1981), https://www.gao.gov/products/fpcd-81-43.

President Reagan and President Clinton continued this trend with a stated goal of downsizing the federal workforce. In the 1980s and 1990s, senior political leadership advocated for a government that ran more like a business, and this usually also entailed shrinking the size of the workforce. This also affected the acquisition workforce. Though the number of acquisition personnel at the DoD rose during most of the Reagan administration alongside defense spending to a peak in 1987, the workforce has not kept pace with obligations since.[110]

Figure 1: Growth and Decline of the Acquisition Workforce



Source: Philip L. Shiman, et al, Reform and Experimentation After the Cold War 1989-2001 542 (2022).

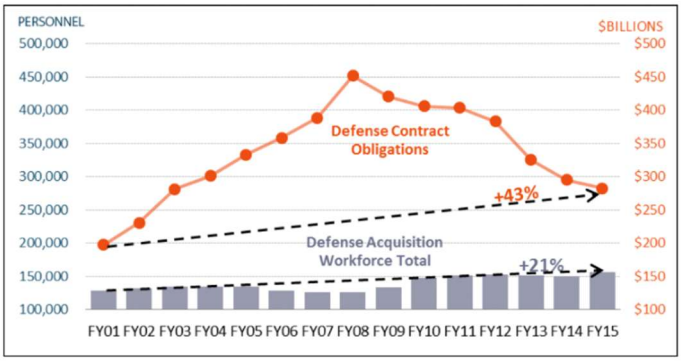
During the Clinton administration, Congress supported efforts to cut acquisition personnel. In 1995, the chair of the House Armed Services subcommittee on procurement, Rep. Duncan Hunter, complained that the Pentagon was full of "shoppers and buyers."[111] The House version of the FY 1996 defense authorization bill cut acquisition personnel by 25 percent with a 30,000-person reduction in force within the year. The Senate moderated the language, and the final bill cut 15,000 jobs with a requirement to build a plan to cut up to 25 percent.[112] Ultimately, between 1989 and 1999 the defense acquisition workforce shrank by 50 percent.[113]

In the 2010s, the Defense Department initiated a plan to build back its acquisition workforce, but concerns persisted that the cuts of the 1990s had long-term consequences and that despite growth, the size and shape of the workforce "has not kept pace with the increasing amount and complexity of the acquisition workload."[114] Between 2001 and 2015, the acquisition workforce increased 21 percent while defense

[110] Shiman et al., *supra* note 37, at 542.
[111] Shiman et al., *supra* note 37, at 542.
[112] Shiman et al., *supra* note 37, at 541.
[113] Moshe Schwartz et al, *The Department of Defense Acquisition Workforce: Background, Analysis, and Questions for Congress*, CRS, (2016), https://sgp.fas.org/crs/natsec/R44578.pdf.
[114] *Id.* at 8.

contract obligations have increased 43 percent.[115] The trend continues still today. In May 2024, the head of Army acquisition, Doug Bush, said in congressional testimony that "If I worry about one workforce, it's the contracting workforce…They doubled their workload, frankly. They did COVID and then they rolled straight into Ukraine. I think [we need] a little help in both realms. Efficiency investment and perhaps some more people would be warranted."[116]

Figure 2: Acquisition Workforce versus Contract Obligations



Source: Moshe Schwartz et al, *The Department of Defense Acquisition Workforce: Background, Analysis, and Questions for Congress*, CRS, 9 (2016).

This multi-decade-long push to privatize also coincided with an unprecedented boom in private-sector technology investment, development, and commercialization, much of which was built on decades of federal investment in research and development. This is part of the thesis of Jennifer Pahkla, founder of the nonprofit organization Code for America, in her book *Recoding America*. She provides an account of what resulted from pushing anything dubbed "data processing" out of government under A-76, starting in the 1960s through the Clinton National Performance Review. As she writes, "Technology was not central to these outsourcing debates, but the result was a dramatic loss in core capacity of government at perhaps just the wrong time."[117] Pahlka details how by turning to contractors for all digital services, the government lost the ability to understand the big shifts in technology happening at that time, the ability to purchase and integrate the technology in a smart way, and the ability to effectively build (or buy) services that are inseparable from the software and technology on which they rely.

The short version is this: Starting in the 1970s, the government turned to private contractors for more and more. The government also decreased the size of the federal workforce leading to more expansive service contracts to fill in gaps. As obligations grew, the government did not build an acquisition workforce that matched the contracting growth but rather turned to that portion of the workforce for cuts and

[115] *Id.* at 8-9.
[116] Anastasia Obis, *DoD's acquisition workforce is stretched thin*, REALCLEARDEFENSE, May 16, 2024, https://federalnewsnetwork.com/defense-main/2024/05/dods-acquisition-workforce-is-stretched-thin/.
[117] Pahlka, *supra* note 97, at 105.

savings, as well. This all happened during a tech revolution, which the government suddenly found itself underprepared to benefit from despite its desires to do so.

Not everyone missed the signs while this was happening. In his 1993 book *Sharing Power*, Donald Kettl discussed about the complexity of appropriate balancing and managing the use of the private sector for public good. He wrote that a reliance on competition "does not so much reduce government as fundamentally change its role," and that this shifting balance means that many procurement problems arise because of the government's "lack of capacity to manage public-private partnership."[118] This is the key missing element of the Last Supper mythos, which is so often invoked by those who pine for a resurrection but do not understand—or refuse to admit—what it requires. Even if we were to accept that all that was privatized should have been, the government never equipped itself to manage the myriad contracts effectively, and for emerging technology, pursue the contracts at all.

II. The Lessons of the Long Supper

Rather than a "last supper," commentators would be better off talking about a "long supper." In particular, consolidation in the defense industry started before that storied dinner in 1993, and likely would have continued apace regardless of encouragement from the Defense Department. Globalization, new business practices like financial engineering, and advances in technology in the 1980s impacted the entire economy and the defense industry was not spared; neither was it strong enough when those trends accelerated in the 1990s. The sector was weak when defense spending started to fall, and consolidation was but a tool, a means to survive.

Second, consolidation was intended to reduce excess capacity across the defense industry, but the surge capacity of both the organic industrial base and the defense industry had long been in decline. It is clear that there does not exist a mode of just-in-time production or business process that can surge capacity at the speed and scale required by conflict: a lesson learned again and again over the last 80 years. The U.S. military has seemingly relearned the importance of organic capacity for things like munitions and shipbuilding plenty of times after divesting, in the hope that they are unnecessary or that the private sector will fill the gap. And yet over and over again, the private sector has behaved in line with its incentives rather than the government's, and DoD and policymakers have had to relearn the same lessons again. The doom of

[118] Kettl, *supra* note 97, at 6.

repetition calls into question whether sufficient learning has ever happened. Further, by focusing on efficiency over all else, DoD incentivized industry to streamline costs and eliminate excess production capacity—both factors that stretched over decades.

Third, consolidation did not cause a break with the commercial industry. The industry-wide, and economy-wide, problems that spurred consolidation in the 1980s, combined with the unique features of the defense sector, led to defense industry isolation. The H.W. Bush and, to a greater extent, the Clinton administrations both recognized isolation as a problem and focused the bulk of their acquisition reform efforts on integrating the civilian and military industrial bases. During the Clinton administration, Congress passed two substantial reform bills to increase commercial product procurement and streamline acquisition. They were unsuccessful despite overwhelming political support and backing. These policies have only been further expanded over the last 30 years. There was never a schism with the modern technology sector that emerged in the 1990s, but rather there was a failure to recognize that in order to ensure that the government could capitalize on the sector's growth and innovation, it would need to become smarter not slimmer.

Finally, the outsourcing of government services and hollowing out of the civilian workforce must be considered in any discussion of what went wrong. As the defense industry grew more oligopolistic, the need for skilled and aggressive contract management by the government increased as the key tool for the government to extract the full benefit of any contract. As technology progressed rapidly in the private sector, the need for personnel within the DoD who understood the technology grew to provide a path to effectively integrate it into strategy and purchase it smartly. But instead, the government shed its internal ability to manage these complex dynamics, hoping that deregulation and commercial preference policies would self-administer.

The lessons of the "long supper" will perhaps be tough for many to swallow.

1) Deregulation is not a panacea. The principles that many are pushing for now mirror those of the failed or inadequate policies of the 1980s and 1990s: deregulation, privatization, more commercial off-the-shelf purchasing, and more dual-use technology. While simplifying the Federal Acquisition Regulations (FAR) and their DoD supplement (the DFAR) is warranted—and there are, of course, opportunities to purchase more commercial goods—doubling down on 30-year-old policies that have yet to deliver in isolation will not work. Civilian-military industrial base integration is

difficult and unlikely to be as widespread as its advocates would hope.[119] Contract pricing structures should be used smartly but are rarely the root cause of any problem and certainly not a silver bullet solution. As with other policies that have emphasized efficiency, the short-term benefits of a set of policies focused primarily on speed may have long-term disadvantages.

2) Pay for industrial capacity and public production. We get the industry production capacity we pay for. Firms will maximize profit and minimize cost within the extent of the law and contractual obligations. To compete and survive, firms shed excess capacity and pushed supply chains overseas. If we want more surge production capacity in industry, we have to buy it, which means including it in contracts. If we want domestic production capacity, we need real industrial policy, or we will be perennially underbid by overseas workforces. Public production capacity is also essential. We have been forced to relearn the importance of organic capacity too many times. For national security, there are some capabilities we need to pay for always, even in peacetime, to maintain them in case of war. Munitions and shipyards are the best examples. We need to build this organically, and it will cost money.

3) Without sufficient state capacity, nothing else works. First, in the national security space, there are some things the government should do itself because (a) the aims of the government and the private sector are, by definition, not the same, and (b) by not performing certain functions, the government undermines its own ability to do many other things well. Extensive privatization and elimination of lots of expertise has led to many problems. As Jennifer Pahlka wrote, we outsourced IT, so the government lost its ability to even manage IT well. Now, even if we still think it's a good idea to procure the bulk of information software from the private sector, we are bad at doing that because the internal knowledge base is gone.[120] In the 1990s, due to both outsourcing and reductions in force, the Navy cut most of its architects and engineers. Now it has a hard time buying ships well, on budget, and on time.[121] Even a Navy not designing or engineering many ships itself would have been better served in the long term if that talented workforce had had its skillsets and subject-matter expertise channeled toward

[119] Norm Augustine once said: "Companies which can make greater returns from building plowshares rather than swords, will most assuredly do so." Shiman et al., *supra* note 37, at 500. Augustine was also doubtful about defense firms successfully moving into other sectors: "the record of [the defense] industry in diversification is unblemished by success." Jill Aitoro, *30 Years: A Norm Augustine Retrospective*, DEFENSE NEWS (Oct. 25, 2016), https://www.defensenews.com/30th-annivesary/2016/10/25/30-years-a-norm-augustine-retrospective/.

[120] Pahlka, *supra* note 97, at 101-117.

[121] Lofgren, *supra* note 80, at 72.

the effective procurement of ships made by others, rather than just let go for the sake of short-term efficiency gains.

At the height of A-76 implementation, there were ample questions about whether privatization was more affordable than government-provided services.[122] In many cases, hindsight proves it was not. Today, the government does very little itself, and costs continue to rise. For those who want to give commercial tech acquisition a fair shot, they should push the hardest for building back acquisition talent, research and systems engineering, software development, and systems design, among many other skill sets. A stronger government will be a better advocate for the taxpayer and better able to take advantage of private-sector expertise when appropriate.

4) The defense sector is inherently distorted. Use procurement to manage competition. In 1989, defense acquisition scholar and future Pentagon under secretary, Jack Gansler, wrote that the "'free-market myth' has historically been one of the primary causes of the problems of the American defense industry…Yet the prevalent condition for defense procurement is essentially a single buyer (the Department of Defense) and only one or two suppliers of any given weapon system."[123] Similarly, scholar Donald Kettl wrote soon thereafter: "The further the government moves away from the basic assumptions underlying market competition, the harder the government must work to substitute other mechanisms if it is to obtain the benefits that market competition promises."[124] Both Gansler and Kettl advocated for viewing the defense sector's inherent and unique qualities clearly, for greater government involvement to create conditions for the sector to function optimally within those constraints,[125] and for the government to have the capacity to do so well.[126] Their advice must no longer be ignored.

[122] Kettl, *supra* note 97, at 41-65.
[123] Gansler, *supra* note 40, at 243.
[124] Kettl, *supra* note 97, at 16.
[125] Gansler, *supra* note 40, at 243.
[126] Kettl, *supra* note 97, at 20.