

The Pentagon's War on Commercial Defense Investment

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A [memo](#) signed by Deputy Secretary Feinberg on “Supplier Cost and Pricing Transparency” may be the worst and most damaging piece of defense acquisition and industrial policy written in the last 50 years. It essentially returns defense contracting to the dysfunctional 1970s.

One can understand the Pentagon's dissatisfaction with the traditional defense industrial base. But what it has done in this memo is to overturn all of the acquisition reforms put in place since the 1986 [Packard Commission](#) designed to leverage and access the commercial sector's innovation and know-how. If not quickly modified or rescinded, this memo will have immense damaging effects on the US' future ability to compete in the coming age of modern warfare.

The Pentagon's current acquisition and industrial base challenges are two-fold: It must simultaneously rapidly produce old legacy systems and then innovate at scale to specifically disrupt those systems. The first challenge seems most immediate, but it is the second that is most critical.

There is an understandable concern about expanding the inventory of long-range precision guided munitions and anti-ballistic missile interceptors given the course of conflicts in Iran and Ukraine. There is a real need to quickly produce more of these systems, many of which were designed and first built in the [last century](#). The problem is this has to be done through an industrial base that has over the decades been coddled by government ineptitude, sheltered from market forces, and constrained by low demand and funding. At best these companies have the capacity to handcraft these weapons at very low volumes.

The Feinberg memo could be seen as an act of frustration with these circumstances. But what it actually does is supercharges the Pentagon's already large, overbearing government unique access to contractor internal accounting systems and management data, presumably with an aim to “better” manage these companies from the halls of the Pentagon. The tools for doing this are contained in the mandates of the Truth in Negotiations Act ([TINA](#)) and the Cost Accounting Standards ([CAS](#)), while adding a requirement for the government to obtain unprecedented real-time and permanent access to company data systems.

The Pentagon leadership is thus doubling down on using non-market command and control methods to centrally manage companies that have evolved to be state-sponsored entities. If limited to just those traditional prime contractors during negotiations for sole source munitions contracts, this effort while misguided, might not be particularly damaging.

The problem is the Feinberg memo applies these requirements to [all](#) defense contractors and subcontractors, save for those supplying items bought at your local Walmart. Why this is so significant is Congress and past Administrations have over the last four decades exempted real commercial companies from these government unique requirements because they served as barriers to the Pentagon's accessing commercial innovation. The Feinberg memo just overturned these exemptions and it will have huge but predictable results. We should expect to see

commercial companies leave the defense market just as they had done in the 1960s and 1970s when TINA and CAS were first enacted and the Pentagon again lose access to superior solutions.

This will completely upend the second pillar of industrial policy which requires the US to innovate at speed and scale. As difficult it will be to do this, the US needs to make each of its legacy weapon systems and approaches obsolete, because doing so will also make China's and Russia's forces and investments (that have long been copying the US) obsolete as well.

It will be commercial advances in AI, autonomy, robotics, quantum, data analytics, navigation, sensing, and more that will lead the way in this disruption and be key to restoring US military dominance. This revolution in the military application of commercial innovation can only be done by harnessing America's comparative advantage of capitalist incentives and leveraging a part of the economy that has heretofore not served the Pentagon due to its archaic rules.

We were on the road to finally doing that with Secretary Hegseth's announcement in [November](#) to embrace past acquisition reforms designed to innovate at speed by emulating Silicon Valley and how once the Department innovated in the 1950s. Unfortunately, [that effort](#) was just completely undermined.

The popping noise we are hearing is the Feinberg memo deflating the prospects of more venture capital and commercial defense investment and solutions coming to disrupt the Pentagon. The Department has shown its true colors and culture. It intends to manage Silicon Valley like it manages Lockheed Martin—through socialist means not market ones. Commercial companies and venture capital investors would be right to conclude that the Pentagon is not serious about real innovation and taking advantage of new technologies. As the Pentagon myopically focuses ever more on the problem of producing more 1990s systems, the release of the Feinberg memo drives home that fact.