

Welfare to Arms: Shareholder Payouts in the Arms Industry Since 2010

How arms industry shareholders benefit from military spending.

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Summary

The Ministry of Defence (MOD) is under fire. Arms procurement, the means through which the government acquires military goods and services, has remained chronically ineffective over the past two decades. ¹ The Commons Defence Committee and Public Accounts Committee have both concluded that the procurement system is “broken” following investigations this year. ² High profile programmes have been subject to expensive and bizarre changes: in 2021, for instance, the UK renegotiated its contract with Boeing for the E7 Wedgetail — an early warning and control aircraft — from its original order of five aircraft costing £2.1 billion to three aircraft for £1.89 billion. ³ With the MOD set to spend £242 billion over the next ten years on procurement, political scrutiny of arms programmes is a necessity. However, recent inquiries by the Defence Committee, the Public Accounts Committee and Clive Sheldon KC have focused predominantly on problems with government decision-making rather than the composition of the arms industrial base. ⁴ Common Wealth analysis of the accounts of arms companies demonstrates that the MOD’s top five suppliers paid their shareholders £15 billion between 2012/13 and 2021/22 despite the high profile failures of several major arms programmes. ⁵ Over this period, MOD procurement only accounted for eight per cent of the suppliers’ global revenue although they received £78 billion of UK contracts. ⁶ Common Wealth analysis also shows that the MOD’s ten leading suppliers paid their shareholders a greater share of after tax profits than the FTSE All Share over the same period. ⁷ This raises the following questions:

- What drives the behaviour of arms contractors?
- Who benefits from the outsized subsidy provided to contractors by the state?
- What are the effects of industrial policy that prioritises military production over other sectors even when contracted projects are not delivered?

As with other UK and US listed firms, many arms companies operating in the UK are constituted by a legal and institutional model that prioritises shareholder value above all other objectives. ⁸ While shareholder payouts in the form of dividends and share buybacks have increased across non-financial firms over the past twenty years, payouts in the arms industry are distinctive as they are more closely connected to both state subsidy and state contracts. ⁹ The privatisation of arms companies and concurrent changes to procurement policy, starting with the 1984 Levine reforms, have not fulfilled their objectives of creating value for money or competition. ¹⁰ Instead, contractors are shielded from risk by state subsidy and incentivised to acquire orders rather than fulfil them while investors are rewarded. ¹¹ The shareholders benefitting from government support for arms companies are predominantly global investment funds and asset managers, which invest on behalf of clients that see the ultimate returns. ¹² Despite common perceptions, as explored in detail below, UK pensioners are negligible beneficiaries of shareholder payouts that flow through these investment funds. ¹³ Further, the prioritisation of military spending within industrial policy does not support a secure base of manufacturing employment: while money flows from state subsidy to shareholders to produce arms, workers within the sector are treated as expendable by firms that operate to maximise shareholder value. ¹⁴ Overall, the shareholder value model helps produce an arms procurement system that is consistently subject to delay and failure. This raises questions for the exceptional role the military industry is given within the UK's industrial strategy and suggests there are significant benefits of redirecting some public investment and technological capacity towards building greater green industrial capacity while securing good manufacturing jobs in the long term.

Key Findings

- Despite delays and cost increases to major programmes between 2012/13 and 2021/22, the MOD's top five suppliers paid out £15 billion to their shareholders. Over the same period, the suppliers received 8 per cent of their global revenue from the MOD through £78 billion of contracts although most of their revenue was from production in other markets.
- The MOD's top ten suppliers paid a far higher share of profit (111 per cent) to shareholders than the FTSE All Share (68 per cent) between 2012/13 and 2021/22. This varied significantly between the MOD's suppliers, but all profitable UK and US headquartered firms paid a higher proportion of profits to shareholders than European firms that are partly state owned.
- BAE Systems, the UK's prime supplier, paid out £7.4 billion to its shareholders between 2012/13 and 2021/22. Over this period, it received 21 per cent of its global revenue from MOD contracts worth £36 billion. Another leading supplier QinetiQ—formerly the MOD's own Defence Evaluation and Research Agency—paid its shareholders £547 million while receiving a total of £5.7 billion from the MOD, 58 per cent of its global revenue.
- Arms companies operating in the UK—most of them multinational firms that operate across several countries and through international consortia—have paid their shareholders a total of £368.8 billion since 2010.
- Since the approval of the main stage of the MOD's failed Ajax programme, the contractor General Dynamics has paid its shareholders £18.4 billion.
- Over this period, General Dynamics has drawn most of its revenue from contracts with the US Department of Defense (DOD). The MOD's contract for the Ajax tank is worth £5.5 billion, of which it has already paid £3.1 billion, while General Dynamics has only invested £40 million in UK manufacturing facilities. ¹⁵

The Crisis of Arms Procurement

The UK's arms procurement system is under intense scrutiny. In their assessment of the MOD's equipment plan, which sets out spending of £242 billion on military equipment and services over the next ten years, the Public Accounts Committee concluded that they saw the “same problems recurring

with major, often multi-billion pound, defence procurement programmes... many years late and significantly over-budget”.¹⁶ The Defence Committee reached a similar conclusion four months later, describing the procurement system as “broken” and “far too ponderous, with an inconsistent approach to safety”.¹⁷ This political scrutiny is a result of chronic problems in MOD programmes: in nine out of twelve programmes in the equipment plan that were assessed by the National Audit Office in 2021, costs increased between the initial business case and the department’s ultimate investment decision.¹⁸ Three of these programmes grew in cost by more than 50 per cent and four programmes exceeded the department’s worst-case scenarios by the time they were approved.¹⁹ Despite relatively high levels of public investment, the MOD is struggling to manage its procurement system.

Recent military projects typify this trend: after a seven-year design process, the MOD awarded BAE Systems a £3.7 billion contract to manufacture the Type 26 frigate for the Navy in 2017.²⁰ Last year, a further £4.2 billion contract was awarded to BAE to manufacture the final ships in the programme.²¹ Despite this, operational use of the new frigates has already been delayed by a year to October 2028 at an estimated cost of £233 million.²² Moreover, the gearboxes for the first new frigate were delivered so late that the entire ship had already been sealed and its hull had to be cut open to fit the gearbox.²³ On land, procurement faces even greater challenges: the MOD’s £5.5 billion contract with General Dynamics for the Ajax armoured vehicle has suffered from a minimum of five years delay while the vehicles have caused health issues to personnel during testing.²⁴ The MOD has already paid General Dynamics at least £3.1 billion although no vehicles are currently operational despite an initial deadline to be in use by 2020.²⁵ This expensive pattern of delay to defence programmes has led parliamentary committees to investigate, but most political attention has focused on procurement systems within government rather than the UK’s arms industrial base, which is mostly composed of large multinational firms. Arms contractors play a slightly distinct role from private contractors to other government departments as they are often specialised firms often involved in manufacturing and assembly, rather than generalist service-based contractors.²⁶ The financial support provided to arms companies despite their poor track record raises two questions: why do firms not prioritise the delivery of their contracts? And, who ultimately benefits from the state support provided for arms production in the UK?

Arms companies have not been exempt from the “shareholder revolution” that has transformed the structure of firms in the UK and US since the 1980s. ²⁷ As the next section explores in detail, arms firms are distinct from many other companies that operate to maximise shareholder value in that they are the beneficiaries of a far greater degree of state subsidy. Further, at the same time as the maximisation of shareholder value was enshrined in UK company law, subsequent governments reformed defence procurement and privatised existing contractors in an attempt to introduce greater competition and value for money. ²⁸ Frequent overspend in defence projects and their chronic delay reflects the consequences of both the shareholder revolution and procurement reform. Meanwhile the benefits of production flow to shareholders from private arms firms that are shielded from risk by state customers.

As demonstrated by a recent Common Wealth report “The Asset Manager Arsenal: Who Owns the UK Arms Industry?”, arms companies receive higher levels of direct state subsidy than other sectors — especially in the high-risk development phases of projects — while their customers bear the risk of delay. ²⁹ This network of subsidy helps to underpin above average returns on invested capital at arms companies operating in the UK. ³⁰ As the second section of this briefing shows, the support of state customers for international firms has helped enable billions of pounds of shareholder payouts among the MOD’s leading suppliers over the last decade. Returns flow to arms industry shareholders amid public spending on military projects beset with delivery challenges. As outlined in the third section of this briefing, industrial policy that concentrates state support on private arms firms can produce insecurity. Multinational firms are structured to prioritise the interests of their shareholders over workers or their local communities. Industrial strategy that focuses on military production at the expense of other sectors operates to the benefit of shareholders and export customers. A transition of industrial capacity and public investment would therefore enable the use of productive and technological capacity to address urgent social challenges while better safeguarding domestic manufacturing jobs.

Arming the Shareholder Revolution

Since the 1980s, corporate cashflow and borrowing have become more closely connected to shareholder payouts than productive investment in both the US

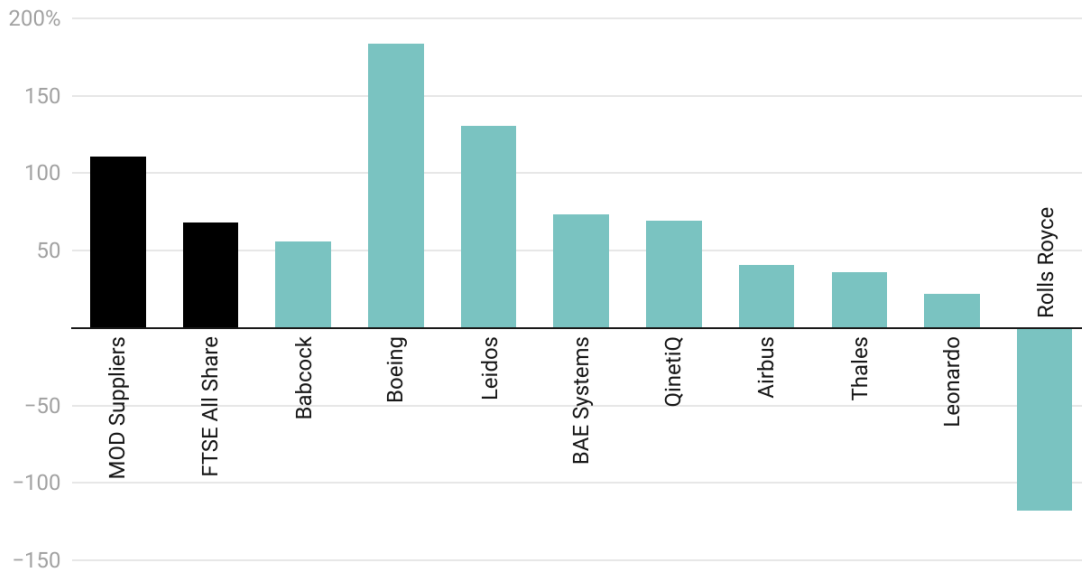
and the UK. ³¹ Many arms companies have been part of this shift, which results from the legal and institutional structure of firms, but they occupy a distinctive position compared to firms in other sectors as the recipients of outsized state subsidy. ³² Further, the logic of shareholder value maximisation at many arms firms contributes to the crisis of delay and overspend in MOD contracts.

Dividends have grown massively overall in the UK over the last two decades. Between 2000 and 2019, dividends at UK-based non-financial firms rose six times faster than real wages. ³³ More recently, share buybacks — a means of allocating profits to shareholders by inflating the value of a stock while reducing the number of shares — rose to £16.2 billion at UK-listed firms in the second quarter of 2022 compared to a quarterly average of £6.4 billion in 2019. ³⁴ Following the Covid-19 pandemic, price spikes in energy and commodity sectors have led to “windfall profits” and the allocation of windfall payouts especially at energy firms: BP paid its shareholders £2.5 billion in the second quarter of 2023 alone. ³⁵

Many of the leading arms firms operating in the UK are headquartered in the US or listed in London — and therefore form part of this trend of rising shareholder payouts — although there are a few key exceptions among the MOD’s top suppliers. Airbus, Leonardo and Thales are all minority-owned by European states and listed elsewhere: the French state has a 26 per cent stake in Thales and a 11 per cent stake in Airbus along with the Spanish and German governments (which hold 4 and 11 per cent stakes, respectively) while the Italian government has a 30 per cent stake in Leonardo. ³⁶ From 2012/13 to 2021/22 this led to the three firms distributing a much lower share of their profits to shareholders than the MOD’s leading suppliers headquartered in the UK and US — with the exception of Rolls Royce which made a loss over the relevant period (see Figure 1). ³⁷ This allocation of profits reflects the effects of the shareholder revolution on the corporate decision making of arms firms headquartered in the US and UK.

The MOD's Leading Suppliers Distribute Most of their Profits to Shareholders

Shareholder payouts as a percentage of net income after tax at the MOD's top ten suppliers (2012/13-2021/22, excl.2020)



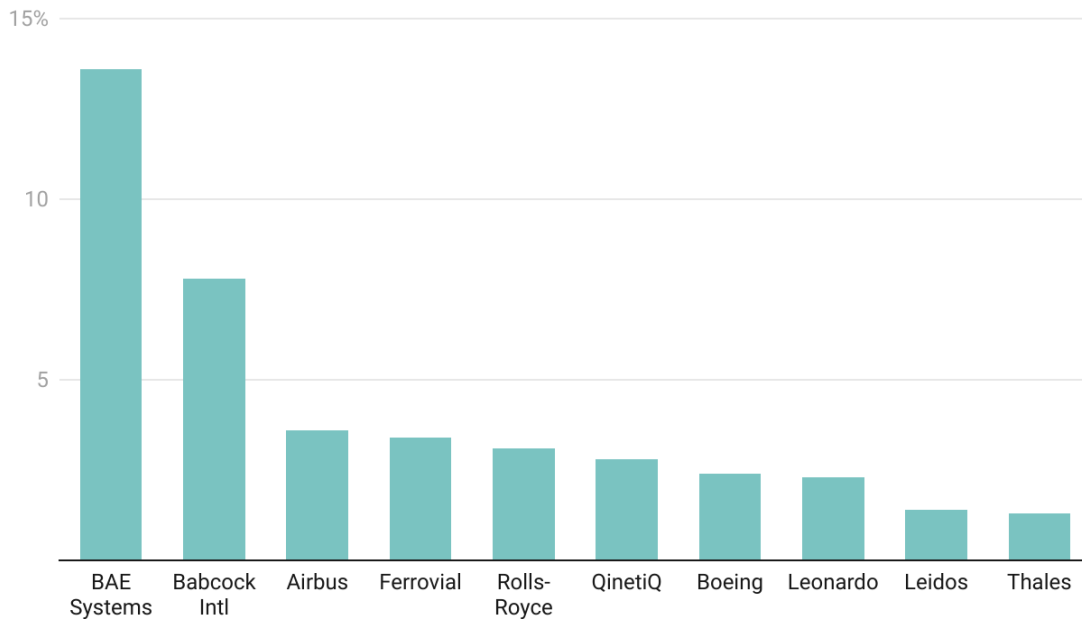
Source: Common Wealth analysis of the Refinitiv database. • Created with Datawrapper

While UK and US headquartered arms firms form part of a broader trend towards shareholder value maximisation, they are shielded from risk to a greater degree than companies in other sectors. The resilience of some arms firms since the pandemic — while others in the industrials sector have struggled citing supply bottlenecks and higher energy costs — illustrates the effect of state subsidy and market concentration on the maintenance of a profit base for shareholders. As of the final quarter of 2021, annualised post-pandemic profit rates at UK-listed firms had fallen in the industrials sector compared to pre-pandemic, but BAE Systems (the best performing firm in the sector over that period) saw a profit margin 1.8 percentage points higher than before. ³⁸ The invasion of Ukraine and increased military spending have followed, with BAE Systems reporting a ten per cent year-on-year increase in EBIT (earnings before interest and taxes) in its 2023 half year results. ³⁹ As the MOD's prime supplier accounting for a minimum of £3 billion per year of the defence procurement budget over the past decade (in 2022, for instance, the £4 billion spent on BAE was 14 per cent of the MOD's total procurement spend), BAE Systems exemplifies the concentrated nature of the arms sector. ⁴⁰ Moreover, in 2022 BAE Systems funded only 14 per cent of its £2 billion research and development budget — state customers pay for development costs in arms contracts which demonstrates the extent to which they derisk investor returns. ⁴¹

Arms companies operating in the UK benefit from a complex of favourable conditions that help underpin returns on investment and lend firms their distinctive position within the shareholder revolution. ⁴² State customers protect arms firms from risk through direct research and development subsidy, concentrated procurement budgets and uncompetitive contracting processes. As the Public Accounts Committee noted in 2021: “[the MOD] pours money into the developmental stages of programmes while suppliers are reluctant to accept more risk.” ⁴³ Due to this arrangement, the MOD’s key suppliers invest little of their own research and development budgets: QinetiQ paid for just four per cent in 2022 despite research and development being core to its business offer. ⁴⁴ Overall, more than a third of the UK’s public research and development funding between 1987 and 2009 went to defence production. ⁴⁵ In the US, arms companies (many of which also operate in the UK) paid a smaller share of their own research and development costs between 2010 and 2019 than in the previous decade. ⁴⁶ Research commissioned by the Pentagon concluded this year that “publicly traded US-based corporations in the defense industrial base...generate substantial cash beyond their needs for operations or capital investment”. ⁴⁷ For arms companies operating in the UK, the subsidy and state support provided to production led to returns on invested capital above the FTSE 100 average between 2010 and 2019. ⁴⁸ Within the arms sector globally, states play a derisking role: shielding contractors from risks in the development phase of projects while their customers ultimately face the consequences of delays.

The MOD Spent Half its Budget on Ten Private Suppliers in 2021/22

Percentage of the 2021/22 MOD procurement budget spent on its top ten suppliers

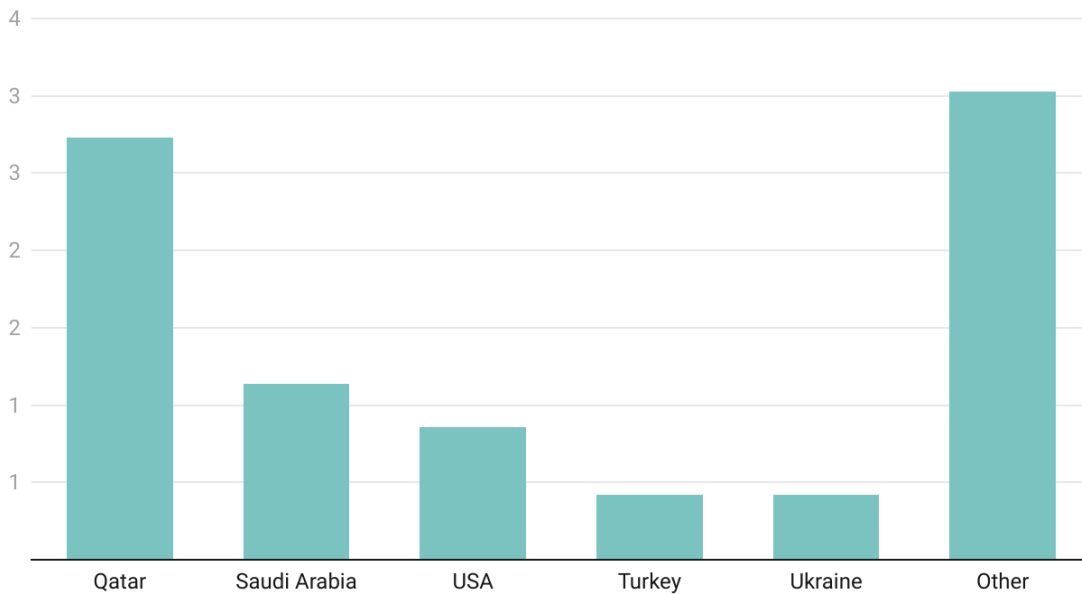


Source: MOD. • Created with Datawrapper

The MOD procurement budget also maintains a concentrated base of suppliers that varies in nature from multinational firms with close connections to the domestic market to large companies that derive most of their business elsewhere. Some firms, for instance, benefit from close ties to UK government: MOD procurement spending provides at least a fifth of the global revenue at each of three of the major arms companies headquartered in the UK — BAE Systems, Babcock and QinetiQ.^{[49](#)} The other seven of the MOD's ten leading suppliers draw a significant majority of their revenue from production in other countries and sectors.^{[50](#)} Nonetheless, the MOD procurement budget helps underpin the UK business of all leading suppliers and maintain a concentrated supply base overall: in 2021/2022, the MOD spent a total of £28.6 billion on suppliers, 42 per cent of which was allocated to just ten firms.^{[51](#)}

Arms Export Licenses in 2022 Were Concentrated among a Few Leading Customers

Military and dual-use standard individual export licenses by value (£bn, SIELs only)



Source: Department for Business and Trade. • Created with Datawrapper

In 2022, arms companies operating in the UK also benefited from £8.47 billion of arms exports to a small base of customers — 47 per cent of whom were Gulf monarchies — which the UK government plays an active role in securing.⁵² This combination of domestic, global and export sales illustrates the demand base from which arms companies benefit. Despite the intention of reforms to defence procurement in the 1980s and 1990s, firms do not operate in a competitive environment: in 2021/22, six of the MOD's top ten suppliers received most of their contracts through uncompetitive processes.⁵³ Arms companies are thus distinct from most firms in other sectors that have been transformed as part of the shareholder revolution — although driven by the same logic of maximising shareholder returns, arms firms benefit from a close relationship with the state. Arms firms receive high levels of subsidy but are not induced to deliver contracts without delay or failure while their shareholders are rewarded at a higher rate than FTSE-listed companies on average.

Buybacks: From Battlefield to Balance Sheet

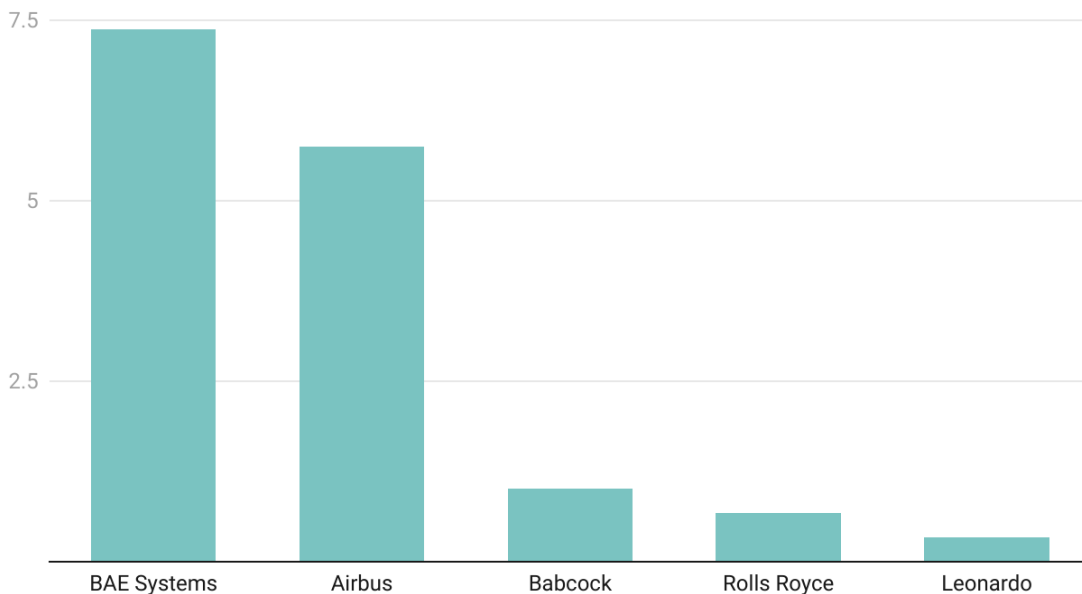
Support from state customers has enabled the MOD's top suppliers to deliver billions in shareholder payouts over the past decade despite project delivery and

arms procurement remaining in crisis. Arms companies use the beneficial financial environment in which they operate to reward shareholders, even though states bear the risk of financing the early development of projects while also facing the consequences of delays and failures within programmes. Profits thus flow through the arms industry from state subsidy to the investment firms that own arms companies and their clients: our analysis shows that shareholders are paid a greater share of profits at the MOD's leading suppliers than the FTSE All Share as a whole. Despite common misconceptions, the beneficiaries of these payouts are not UK pensioners. As our analysis below demonstrates, UK pension funds have negligible exposure to UK-listed equities and UK-listed arms firms.

We calculate that the MOD's top five suppliers paid their shareholders £15 billion between 2012/13 and 2021/22. Over this period, eight per cent of their global revenue came from the MOD with the firms receiving a combined £78 billion in MOD contracts. ⁵⁴ The dependence of the top ten firms that supply the MOD on UK business varies significantly: while Babcock (44 per cent), BAE (21 per cent) and QinetiQ (58 per cent) received a high proportion of their revenue from MOD contracts, the other leading suppliers all drew more than 90 per cent of their revenue from other customers over the same period. ⁵⁵ Nevertheless, the MOD's suppliers were able to pay shareholders massive rewards while failing to address delivery issues within major UK contracts.

The MOD's Leading Suppliers Paid Out £15bn to Shareholders between 2012/13 and 2021/22

Total shareholder payouts at the MOD's five leading suppliers 2012/13 to 2021/22 (£bn)



Created with Datawrapper

Multinational arms companies operating in the UK have paid their shareholders £368.8 billion in total since 2010. ⁵⁶ Many of these payouts have been made by companies which derive most of their revenue from the US Department of Defense — Lockheed Martin for instance launched a \$7.9 billion stock buyback scheme last year while receiving 73.5 per cent of its sales from the US government — but US-based companies have still failed to deliver contracts for the MOD while continuing to reward their shareholders. ⁵⁷ General Dynamics, another of the US government's prime suppliers, has paid its shareholders £18.4 billion since the failed Ajax programme was announced and only invested £40 million in UK manufacturing facilities in that time. ⁵⁸ Many arms companies are able to benefit from significant state subsidy and state contracts while prizing the interests of their shareholders above all others.

Overall, the MOD's leading suppliers have been able to pay their shareholders a greater share of profits than the FTSE All Share. Between 2012/13 and 2021/22, companies in the FTSE All Share paid their shareholders 68 per cent of after tax profits while the MOD's top ten suppliers paid out 111 per cent of their profits in dividends and buybacks. ⁵⁹ As Figure 1 shows, this is skewed by shareholder payouts at Boeing, which faced some unprofitable years over that period.

Despite its own financial difficulties, the UK-headquartered firm Babcock paid its shareholders £1 billion between 2012/13 and 2021/22 while receiving 44 per cent of its global revenue from the MOD in £17.8 billion of contracts. The effects of shareholder primacy on a sector constituted by state subsidy and state customers are clear: at all profitable US and UK-headquartered firms among the MOD's leading suppliers a far greater share of profit was paid to shareholders between 2012/13 and 2021/22 than at Airbus, Leonardo and Thales (all of which fall partly under state ownership).

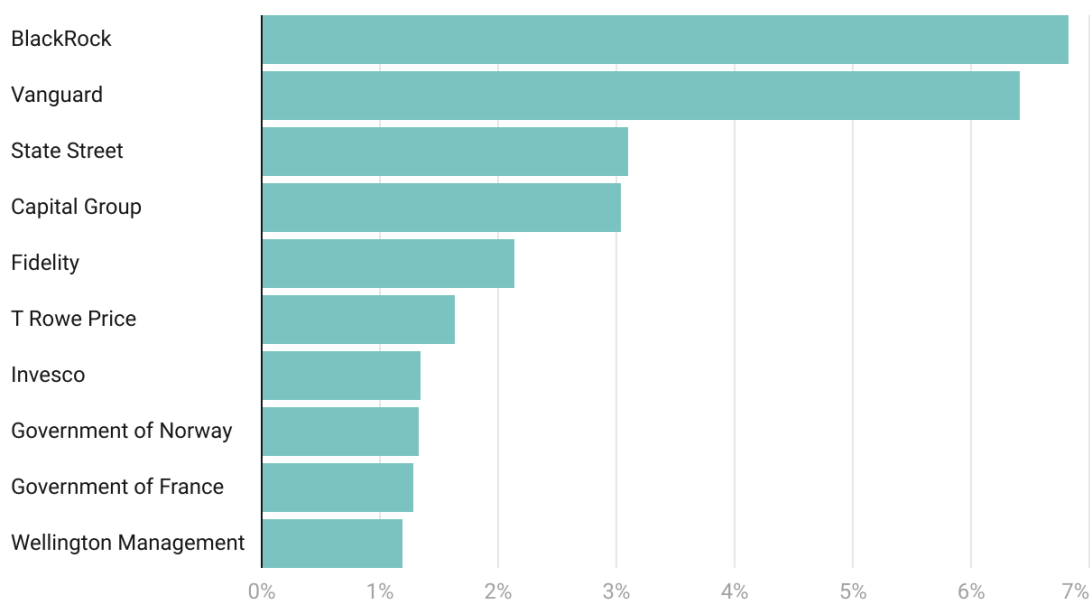
The accounts of the MOD's few leading contractors headquartered in the UK illustrate how state subsidy and revenue from government contracts help support shareholder payouts. Between 2012/13 and 2021/22, BAE Systems paid its shareholders £7.4 billion. Over the same period, the MOD awarded BAE Systems contracts worth £36 billion which accounted for 21 per cent of the firm's global revenue.⁶⁰ With military spending increasing globally after Russia's invasion of Ukraine, BAE's payouts are set to rise even higher. In August 2023, BAE announced a new share buyback programme of £1.5 billion and has just commenced the third round of its previous share buyback programme worth the same amount.⁶¹ BAE's recent performance made its CEO Charles Woodburn the second highest paid executive of a FTSE 100 company in 2022.⁶² As the UK's leading arms supplier and the recipient of primarily non-competitive contracts, as well as significant business in the US, Australia and Saudi Arabia, BAE is a critical example of shareholder benefit from the allocation of state resources.

QinetiQ — formerly the MOD's Defence Evaluation and Research Agency (DERA) — is a particularly extreme example of shareholder benefit from state subsidy. Between 2012/13 and 2021/22, QinetiQ paid its shareholders £547 million while receiving £5.7 billion in MOD contracts — 58 per cent of its global revenue.⁶³ The privatisation of DERA formally began in 2001 with investment from the Carlyle Group, a private equity firm. In fact, DERA had been a candidate for privatisation since it was founded in 1991 as part of the Major government's Next Steps agenda to create more efficient public services.⁶⁴ Despite this, it was only sold a decade later under the Blair government's public private partnership policy with the aim of outsourcing much of the MOD's research capacity.⁶⁵ A National Audit Office investigation of the privatisation process revealed that the top ten managers who remained during DERA's transition into a private company saw their shares increase in value by an

average of £10 million between the introduction of a share incentive scheme during the sale and the company's 2006 public flotation.⁶⁶ Perhaps most strangely, the former MOD subdivision is able to sell its core business (research and development) to the MOD while paying for less than five per cent of its own research and development costs.⁶⁷ The shareholders of QinetiQ benefit from the privatisation of services once conducted under public ownership that remain funded by the MOD.

Global Investment Firms Top the List of Shareholders in Arms Companies Operating in the UK

Ownership stake of arms companies operating in the UK, September 2023 (%)



The governments of Norway and France have outsized average holdings in arms companies with UK operations as a result of the ownership structures of a few companies within the industry. Norway has majority shares in Kongsberg Gruppen and France has significant minority stakes in Thales, Safran and Airbus.

Source: Common Wealth analysis of the Refinitiv database. • Created with Datawrapper

As Figure 5 demonstrates, the primary shareholders of arms companies operating in the UK are global investment firms and asset management companies. On average, 16.3 per cent of shares in arms companies operating in the UK are held by three firms: BlackRock, Vanguard and State Street.⁶⁸ Aside from wealthy individuals such as political donor Christopher Harborne (the top shareholder of QinetiQ through Klear Kite LLC), most shareholder payouts from arms companies flow through investment firms.⁶⁹ These companies invest on behalf of their clients and charge a fee for the service while their customers see the ultimate returns from payouts.

Although the clients of investment firms are often institutional investors, the beneficiaries of shareholder payouts should not be mistaken for UK pensioners. Since the 1990s, the exposure of UK pension funds to equities as a whole and to the domestic economy has declined.⁷⁰ The current allocation of UK Defined Benefit and Defined Contribution pension schemes to domestic equities is 13.2 per cent (44 per cent is allocated to UK bonds).⁷¹ Defined Benefit pension schemes — which form 81 per cent of UK pension assets — only have 1.9 per cent exposure to domestic equities.⁷² UK pensions also have limited exposure to arms firms specifically: assuming that pension funds allocate roughly in keeping with the size of companies in an index, based on the position of BAE Systems, QinetiQ and Rolls Royce in the FTSE All Share, UK pension fund exposure to these firms would be 0.16 per cent, 0.01 per cent and 0.07 per cent of their aggregate portfolios respectively.⁷³ Further, any residual benefit that does flow through the minimal exposure of UK pensions to equity holdings in arms firms is unequally distributed: nearly half of UK pension wealth is held by people in the top two income deciles.⁷⁴ While subsidy from state customers has helped arms firms reward their international shareholders through billions of pounds in payouts over the last decade, UK pensioners are not the ultimate beneficiaries of these distributed profits and, as explored below, neither are arms workers.

The Insecurity of Military Industrial Policy

The dominance of the shareholder value doctrine explains why military industrial policy is a fragile means of producing a skilled and secure manufacturing base. Both in the UK and the US, disproportionate public resources are allocated to military industries over other industrial sectors, including those essential to meeting urgent social challenges like climate crisis.⁷⁵ This allocation of resources serves state priorities, including the maintenance of close relationships with Gulf monarchies that constitute the UK's primary arms export market. Despite the unique status of arms spending within the UK's industrial policy, arms firms serve the interests of shareholders rather than providing a secure base of manufacturing employment.⁷⁶ Given the shareholder primacy model of US and UK-headquartered arms companies and inherent fluctuations in military spending, military-dominated industrial strategy leads to insecurity for workers as demonstrated by the transformation of the US industry in the wake of the Cold War.

The end of the Cold War reshaped the arms industry. In 1993, Bill Clinton's Defence Secretary William Perry invited arms company executives to what became known as the "last supper". ⁷⁷ In front of a packed room, Perry outlined the government's plans to develop a concentrated military industrial base. The Clinton administration would subsequently fund the mergers of major US defence companies to produce five prime suppliers. ⁷⁸ Firms pursued different strategies after the Cold War and in response to Perry's plan: ranging from market consolidation to acquisitions of other firms and the pursuit of international customers, but what united arms contractors was that they laid off employees while preserving investor returns and executive pay. ⁷⁹ Between 1989 and 1994, General Dynamics shed 76 per cent of its employees, Raytheon 22 per cent, McDonnell Douglas 49 per cent and Litton 17 per cent; at the same time, average executive compensation at six of the DOD's prime suppliers tripled. ⁸⁰ This did not lead to a shift away from military industrial policy in the long term, however: at present, US military spending accounts for more than half of the entire federal government's discretionary budget and one year of the Department of Defense budget eclipses ten years of investment through the Biden Administration's flagship climate programme. ⁸¹

The development of the US prime suppliers, and in particular the restructuring of General Dynamics, further illustrate the consequences of shareholder primacy in arms firms. General Dynamics began its corporate transformation two years before the "last supper" and in 1991 cut a quarter of its workforce. ⁸² Over the subsequent two years, the firm cut 64 per cent of its staff while over the same period executives were paid record bonuses, the company saw returns three times higher than the industry average and paid its shareholders \$4.6 billion. ⁸³ Chief Executive William Anders defended the strategy, arguing:

I do not see that we have a special obligation to our employees. This is an issue of excess human capacity that had to leave the defense industry... We trained our people to have specific skills and paid for that training. What are we to do when those skills are no longer required?... We are not going to start to build bridges. ⁸⁴

The state assets and resources already held by General Dynamics allowed the firm to undertake massive cuts to its workforce while increasing shareholder payouts. The post-Cold War history of General Dynamics and the remaking of

the major US defence companies (many of which operate in the UK) reflect a wider trend in the sector. Despite their role as government suppliers and their income from the state, arms companies prioritise the maximisation of shareholder returns above the security of their workers or their local communities.

As an approach to industrial strategy, not only does a focus on the military sector divert public investment from critical social challenges such as climate crisis, but military industrial policy is a precarious means of supporting secure manufacturing employment. Even during Reagan's military build-up in response to the Soviet invasion of Afghanistan, military spending was redirected away from the Midwest and Northeast US towards the West and Sunbelt and diverted towards firms dominated by non-union, white-collar labour. ⁸⁵ At the height of US military industrial policy, before risks to workers were at their sharpest, union membership still declined and research and development programmes took precedent over manufacturing jobs. ⁸⁶ Through this period, as in the present, shareholders saw the benefits of military spending while work in the arms industry remained insecure in the long term.

Towards a New Industrial Base

In the UK, just ten firms receive more than 40 per cent of the MOD's procurement budget. ⁸⁷ Despite the questionable delivery record of the MOD's suppliers, procurement spending over the next ten years is set to remain high. The industry also relies on a narrow pool of export customers that government helps to procure, primarily Gulf monarchies. ⁸⁸ Arms produced in the UK are used by the UK military and by export customers in violent conflicts across the world to the detriment of civilians. ⁸⁹ An international system of arms production continues to yield billions in shareholder payouts based on state support for multinational companies despite frequent project delays and cost increases. This raises the questions of how public investment and research and development subsidy that are currently concentrated within the arms industry can be better redirected, and whether an alternative industrial policy can use existing capacity within the industry to better address urgent social and economic challenges.

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1. “MOD Equipment Plan 2022-2023”, House of Commons Committee of Public Accounts, 2023. Available [here](#)
 2. See “MOD Equipment Plan 2022-2023”, House of Commons Committee of Public Accounts, 2023. Available [here](#). See also “It is broke and it’s time to fix it: The UK’s defence procurement system”, House of Commons Defence Committee, 2023. Available [here](#).
 3. “It is broke and it’s time to fix it: The UK’s defence procurement system”, House of Commons Defence Committee, 2023. Available [here](#).
 4. For the Sheldon review, see Clive Sheldon, “Report of the Armoured Cavalry Programme (Ajax) Lessons Learned Review”, Ministry of Defence, 2023. Available [here](#).
 5. Common Wealth analysis of the Refinitiv database. Where companies report in December, the timespan January 2012 to December 2021 is used to mirror MOD data most closely. The MOD’s top ten suppliers are defined as the ten largest recipients of the 2022 procurement budget, see “MOD trade, industry and contracts 2022”, Ministry of Defence, 2023. Available [here](#). The top five recipients of MOD contracts since 2012/13 are used for the overall payouts figure to avoid the distortionary effect of including Boeing’s shareholder payout programme. Boeing has exceptionally high payouts compared to the other firms and MOD contracts accounted for the smallest proportion of its global revenue among the companies compared. Ferrovial is excluded from the list of top ten suppliers due to data availability. NB: as an infrastructure company, Ferrovial also does not meet our definition of an arms company which is based on the SIPRI database of the top 100 arms companies globally. See “SIPRI Arms Industry Database”, Stockholm International Peace Research Institute, 2022. Available [Here](#). All currency conversions quoted in this briefing were conducted using the Refinitiv database unless stated otherwise.
 6. “MOD trade, industry and contracts: index”, Ministry of Defence, 2014-2023. Available [here](#).
 7. Common Wealth analysis of the Refinitiv database. Profits are calculated as net income after tax. 2020 is excluded due to the outlier effects of the pandemic on net income.
 8. See for an overview Paddy Ireland, “Efficiency or Power? The Rise of the Shareholder-Oriented Joint Stock Corporation”, *Indiana Journal of Global Legal Studies*, 2018, 25, pp.291-330.
 9. Chris Hayes, “The Great Divide: Examining Labour Compensation and Dividend Growth”, Common Wealth, 2022. Available [here](#). See also Chris Hayes, “The Big Buyback”, Common Wealth, 2022. Available [here](#).
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