



By: *Fiona E. Murray - Robert Murray*

How can NATO allies build the industrial capacity required for deterrence



When World War II began in 1939, Canada had almost no meaningful military industry.

Six years later, Canadian factories had produced thousands of aircraft, hundreds of naval vessels, and more than **800,000 military vehicles**. A country of just 11 million people had become a military-industrial powerhouse.

Heavy government investment was vital to this transformation. But that spending would have meant little if Canada had not also built institutions, financing mechanisms, and physical structures capable of rapidly transforming political commitments into large-scale industrial output.

As NATO's leaders gather in Ankara for their 2026 summit on July 7-8, they should be taking this lesson to heart.

Across Europe and North America, governments are ramping up their **defense spending**.

They are announcing new equipment plans, procurement programs, and spending targets, including commitments to **spend 5% of GDP** on defense by 2035.

Establishing defense as a strategic priority, increasing spending, and improving procurement systems are all steps in the right direction.

But converting resources into military capabilities will require the development of industrial capacity.

NATO countries do not lack resources

Ukraine has demonstrated that modern wars are financed before they are fought.

Since Russia's full-scale invasion in 2022, Ukraine has mobilized billions of dollars to expand drone development and production.

The returns have been extraordinary: drones

costing just a few thousand dollars can destroy military equipment worth hundreds or even thousands of times more.

Even when intercepted, they impose big losses on Russia, which might have to fire air-defense missiles costing tens or hundreds of thousands of dollars.

None of this would have been possible without financing for the factories, engineers, software, supply chains, and production capacity needed to produce drones at scale.

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NATO countries do not lack resources, technological expertise, or political will. What they lack are market structures capable of converting these strengths into military capabilities at the speed and scale today's security environment demands.

Production capacity remains constrained, delivery schedules stretch years into the future, and critical supply chains are fragile.

As bottlenecks persist, defense inflation continues to climb, eroding purchasing power and delaying the fielding of urgently needed capabilities.

Wartime levels of industrial responsiveness

If NATO allies are to build the industrial capacity required for deterrence, they will need to deliver wartime levels of industrial responsiveness, without adopting wartime levels of economic control. This requires a new approach to market-making.

The first challenge is creating reliable long-term demand—a prerequisite for private investment in building new factories or expanding production lines.

This means that national governments must make credible, multi-year procurement commitments, both independently and with allies.

A market-making approach would be both more cost-effective and more productive than the current system

The second challenge is financing this new demand. Even when future orders exist, industrial expansion requires access to affordable long-term capital.

New factories, equipment, and production lines require significant upfront investment.

Manufacturers typically borrow from commercial banks to fund these investments, with the cost of this capital ultimately reflected in the price governments pay for military equipment and munitions.

Where commercial finance is unavailable or too expensive, governments often have little choice but to step in.

A market-making approach would be both more cost-effective and more productive than the current system.

It begins with a purpose-built multilateral institution that serves as a dedicated financing platform for the development and expansion of defense industries and related supply chains.

This is precisely the role that the **Defence, Security and Resilience Bank** (DSRB), now under discussion, is designed to play.

Reducing the cost of financing industrial expansion

By creating a sovereign-backed market for defense finance, the DSRB would help to reduce the cost of financing industrial expansion.

The more secure financing environment that this implies—together with long-term demand commitments that offer assurance of future revenues—would attract commercial lenders and crowd in private investment.

This would go a long way toward easing pressure on defense budgets, which, in the current system, must cover not only direct investments in military capabilities, but also the associated financing costs, industrial risk, and inefficiency.

The more the latter costs can be reduced, the more drones, missiles, and ammunition governments can afford.

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The DSRB represents more than another lending institution. Over time, it would create a dedicated AAA-rated defense, security, and resilience yield curve.

Firms, banks, and governments could thus secure financing conditions specifically designed for the long investment horizons required to build factories, strengthen supply chains, and expand defense production.

Defense market

Strengthening defense capabilities is not only about security policy. It is also industrial policy.

The same investments that strengthen deterrence can also support manufacturing, innovation, exports, and economic growth.



Defense spending would become investment. Investment would become production. And production would become deterrence

With multi-year procurement delivering the demand signal, and the DSRB providing the financing platform, allies can finally build a functioning defense market.

Such a market would not replace national defense budgets; it would make them more effective.

Defense spending would become investment. Investment would become production. And production would become deterrence.

In 1939, Canada did not become a military-industrial powerhouse simply because it spent more money than everyone else.

Rather, it built the institutions, financing mechanisms, and industrial structures that turned spending into production.

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