

DOD Establishes the Office of Strategic Capital

Bottom Line: On Thursday, December 1, Secretary of Defense Lloyd Austin established the Office of Strategic Capital (OSC), defining it as an “[organization that will help build](#) an enduring technological advantage by partnering with private capital providers.” The [website](#) for this new office notes two lines of effort:

1. To “[identify and prioritize](#) promising critical technology areas for the Department of Defense.”
2. To “[fund investments](#) in those critical technology areas, including supply chain technologies not always supported through direct procurement.”

Key Points

- 1** The office does not yet have congressionally-allocated funding, and it is unclear whether funding will be authorized in the upcoming NDAA (National Defense Authorization Act). Without budget authority, the office will have difficulty making meaningful investments that prompt innovation or external research and hiring.
- 2** Office leadership plans to focus their first year on [analyzing the “undercapitalization of critical technology”](#) and will likely not provide direct funding to companies. The office intends to align companies with DoD funding mechanisms, but which mechanisms and the timeline for alignment is unclear.
- 3** An early endeavor for the OSC will be [collaborating](#) with the Small Business Administration (SBA) on the **Small Business Investment Company Critical Technologies Initiative**, a joint project that aims to “grow investment in critical technologies vital to U.S. national security”.
- 4** **Jason Rathje**, a cofounder of AFWERX, will be the office’s inaugural director. AFWERX is a technology accelerator within the Air Force Research Laboratory that aims to foster an ecosystem of innovation within the Air Force through small funded programs for new technologies.

What comes next:

It is not yet clear whether funding authorization will come in the NDAA for 2023. Regardless, the OSC’s first year will be crucial for demonstrating value to national security and to Silicon Valley. And the office hasn’t received a uniformly warm welcome. One piece in the [Wall Street Journal](#) reflects concerns that the OSC is not sufficient to address the limited demand facing American technology innovators. As Steve Blank commented, the OSC funds “new ventures where there are no customers.” Companies and members of Congress alike will be watching to see whether the OSC can direct meaningful investments to develop and sustain technologies of high national interest but in low commercial demand.
