



## The Daily Dish

# The Pentagon Did What?

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This CNBC headline reads: “[Pentagon to become largest shareholder in rare earth miner MP Materials; shares surge 50%](#)” I had so, so, so many questions. Risking another bout of hypertension, I read on. Turns out that the Pentagon was buying \$400 million worth of a newly created class of preferred shares convertible into MP Materials’ common stock, as well as warrants that allow the United States to buy additional common stock.

Question: Why the hell does the Department of Defense (DoD) have \$400 million lying around that it can plow into some random venture? Answer: This is not your father’s DoD. This DoD has an Office of Strategic Capital (OSC, or Office for Squandering Cash), which is in the business of financial engineering of all sorts, [including loans and loan guarantees for its friends](#).

Memo to Congress: Stop delegating your authorities, especially the power of the purse, to the executive branch.

Oh, and by the way, the Pentagon will also loan MP Materials \$150 million within 30 days. Just more evidence that the federal government has become an enormous, systemically risky financial entity with sidelines in national defense and anti-poverty programs.

And what of MP Materials? The CEO James Litinsky provided a truly Orwellian rollout of the announcement:

*I want to be very clear, this is not a nationalization, Litinsky told CNBC’s “[Squawk on the Street](#)” on Thursday. We remain a thriving public company. We now have a great new partner in our economically largest shareholder, DoD, but we still control our company. We control our destiny. We’re shareholder driven.*

Yes, not nationalized, just shareholder-driven where the dominant shareholder is the federal

government.

MP Materials has the only rare earth mine in the United States and also produces magnets, which are a key component of weapons systems. With the cash, MP Materials will build a second production facility to meet the needs of the Pentagon, and the Pentagon has committed to buying 100 percent of the production for 10 years. But it gets even better:

*The Pentagon is also guaranteeing a minimum price of \$110 per kilogram for 10 years for neodymium-praseodymium oxide, or NdPr, that is stockpiled or sold by MP Materials. NdPr is a rare earth compound used to make permanent magnets. If the market price is below \$110 per kilogram, the U.S. will pay MP Materials the difference in a quarterly cash payment, Litinsky said.*

So, let's see. MP Materials gets \$400 million in equity, aka taxpayer dollars, and \$150 million in debt, aka taxpayer dollars, along with a price subsidized by...taxpayer dollars! Not too hard to see why the price of shares jumped 50 percent.

The question is why all of this is viewed as necessary. Anyone abreast of the news knows that China has a dominant position in rare earths, so a U.S.-based producer has a real edge in supplying the Pentagon to begin with. If the Pentagon wanted to agree to a contract to buy rare earths and magnets for 10 years, it would be understandable. And if the terms were this generous, MP Materials could easily get the private capital needed to finance expansion.

Indeed, JPMorgan and Goldman Sachs are putting up \$1 billion as it is. So, the Pentagon dollars can only be involved to ensure control over the operations, a private-sector firm with government control. What in the name of Synthetic Fuels Corporation, Fannie Mae, the Postal Service, or Amtrak could go wrong?