The Military-Industrial Complex Revisited: Shifting Patterns of Military Contracting in the Post-9/11 Period

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The 2000s have been good years to be a military contractor. Rising military budgets justified as part of what the Pentagon and the Bush administration referred to as the "Global War on Terror" (GWOT) have yielded hundreds of billions of dollars in contracts for private companies. And security-related awards from the State Department, the Department of Energy, the intelligence community, and the Department of Homeland Security have provided tens of billions of dollars in additional business for these firms.

The U.S. government's reaction to the terrorist attacks of September 11, 2001 not only dramatically increased the Pentagon budget, but it also radically changed the nature of the military budget debate. The magnitude of the change was remarkable – the *increase* in U.S. military spending from 2001 to 2003 was more than the *entire military budget* of most countries, including major powers like the United Kingdom and China.[1] And in the new political climate, no major weapon system was likely to be cut, no matter how irrelevant it may have been to fighting Al Qaeda. As Harry Stonecipher, then Vice President of Boeing, expressed the corporate confidence in an interview with the *Wall Street Journal*, "the purse is now open," and "any member of Congress who doesn't vote for the funds we need to defend this country will be looking for a new job after next November."[2]

The spending increases that began after 9/11 have continued throughout the 2000s. The Pentagon's base budget plus expenditures on the wars in Iraq and Afghanistan pushed total military spending to over $700 billion per year, the highest level since World War II.[3] Of this figure, over $400 billion was disbursed to private companies. The largest contractors have seen their Pentagon awards nearly double between FY2001 and FY2008 (the last year for which full data is available). Lockheed Martin alone received $29 billion in Pentagon contracts in 2008.[4] Just this one company received more federal dollars in 2008 than the Environmental Protection Agency ($7.5 billion), the Department of Labor ($11.4 billion), or the Department of Transportation ($15.5 billion).[5]

Pentagon contracting has been highly concentrated over this period, with five contractors – Lockheed Martin, Boeing, Northrop Grumman, Raytheon and General Dynamics –accounting for over one-third of all Pentagon contracts.[6] This concentration is a legacy of the merger boom of the 1990s, when the Clinton administration subsidized mergers of companies like Lockheed and Martin Marietta, Northrop and Grumman, and Boeing and McDonnell Douglas as a way to deal with post-Cold War reductions in military spending. Lockheed Martin alone is a product of mergers and acquisitions involving over 20 companies.[7] So as military spending increased in the 2000s, there were fewer large companies left to split up a growing pie.

Many of the same companies that benefited from increased Pentagon and war spending were top contractors for other security related agencies. For example, Lockheed Martin was not only the top contractor for the Pentagon, but it also ranked number one at the Department of Energy; number eight at the Department of Homeland Security (Boeing was number one); number two at the State Department; and number three at the National Aeronautics and Space Administration (NASA). Contracts let by these agencies were only a fraction of the levels awarded by the Pentagon, but they were significant nonetheless. For example, the Department of Homeland Security issued $13.4 billion in contracts in FY2008, NASA $15.9 billion, the State Department $5.5 billion, and the Department of Energy $24.6 billion.[8]

Types of Contractors

There are three main types of contractors that have benefited from the post-9/11 security spending binge: rebuilding and support contractors; private security contractors; and weapons makers.

The growth of support and security contractors in Iraq and Afghanistan has drawn considerable attention in part due to their sheer numbers. Although the Pentagon has acknowledged that it has not done a good job of keeping track of how many private contractor employees it is funding, the Congressional Research Service has done estimates based on the best available data. These estimates show that as of March 2011 there were more private contractors in Iraq and Afghanistan (155,000) than there were uniformed military personnel (145,000).[9] In Iraq, the bulk of these contractors -- more than 60 percent -- were engaged in support services such as serving meals, doing laundry, maintaining and repairing vehicles, and transporting fuel and equipment. Private security contractors – armed personnel involved in guarding embassies, serving as body guards, protecting infrastructure such as oil pipelines, and training Iraqi security forces – accounted for about 10,500 of the private contractors deployed in Iraq, or about 16 percent.[10]

It is not widely known that nearly three-quarters of private contractor personnel in Iraq are either from third countries (57 percent) or Iraq (15 percent), with U.S. citizens coming in at less than one-third.[11] This reflects a multi-tiered labor force in which armed U.S. security contractors receive substantially greater compensation than citizens of other countries, and security contractors receive more than individuals involved in support services. For example, Halliburton has hired laborers from places like Nepal and the Philippines at rates far lower than they would have to pay to attract workers from the United States or Iraq. For example, in the case of Halliburton salaries for American workers averaged $60,000 per year, while salaries for foreign workers from places like Nepal and the Philippines were as little as $3,000 per year.[12] Armed private security contractors with backgrounds in the U.S. Marines or Army Special Forces have been paid as much as $200,000 per year for work in Iraq.[13]

Detailed breakdowns of the relative numbers of private contractors engaged in support versus security functions are not available for Afghanistan, but by one rough estimate about 10 to 20 percent of the 90,000-plus private contractors there are armed security contractors, many of them Afghan nationals. This breakdown runs contrary to two common assumptions that are often made about private contracting in both Iraq and Afghanistan. First, many casual observers – including some journalists – often assume that a large proportion of the private contractors in these conflicts are armed security personnel like those supplied by Blackwater and Dyncorps. Second, with respect to Afghanistan, the prevalence of Afghan nationals in the ranks of armed security contractors is not often understood. This doesn't change the reality that there are significant numbers of Western contractors profiting from the wars, but it puts this phenomenon in some perspective.[14]

Rebuilding and Support

The best known and largest rebuilding and support contractor since 9/11 has been Kellogg, Brown and Root, which until 2007 was a division of the Halliburton Corporation.[15] Halliburton's contracts grew more than tenfold from FY2002 through FY2006 on the strength of contracts to rebuild Iraq's oil infrastructure and provide logistical support to U.S. troops in Iraq.[16]

Halliburton's contracts generated controversy on several fronts, from the circumstances under which they were awarded to the high incidence of cost overruns to the conflicts-of-interest involved in the company's relationship with Bush administration Vice President Dick Cheney.

Halliburton's first Iraq-related contract was awarded before the war even began. It was an open-ended, seven year contract for work doing everything from putting out oil fires to rebuilding and operating Iraq's oil infrastructure in the wake of the U.S. intervention.[17] Critics like Rep. Henry Waxman (D-CA) questioned why Halliburton received no-bid, cost-plus contracts for this work. The Pentagon's response was that the need was too urgent, particularly with respect to putting out oil fires in the event that Saddam Hussein's regime set them on fire as it had done during the 1991 Persian Gulf War. Critics of the deal refuted both arguments, noting that there was another firm available that had put out oil fires during the 1991 Persian Gulf War, and that the "emergency" nature of the oil fire problem did not explain why Halliburton should get a seven year contract that included running Iraq's oil facilities. The oil operations contract was later split up among three companies in response to the criticisms of Waxman and others, but Halliburton still received the lion's share of the work.[18]

Halliburton's most egregious actions were related to its work under the Army's Logistics Civil Augmentation Program (LOGCAP). Under this contract, Halliburton served as an all-purpose logistics support service for the Army, doing everything from building bases to providing food and laundry services, to repairing and maintaining vehicles. The LOGCAP concept had been developed in the early 1990s at the behest of then Secretary of Defense Dick Cheney, and Halliburton received the first contract under the program in 1995, by which time Cheney had left government to become Halliburton's CEO. It is hard to imagine a more blatant example of the conflicts inherent in the "revolving door" – the movement of government officials into positions with the very corporations they had been involved in regulating and steering millions or even billions of dollars to during their period of government service.[19] Unfortunately, under current law Cheney's behavior is considered perfectly legal – a huge loophole that allows officials like Cheney to cash in on their government service with relative impunity. During the period that LOGCAP was a major source of income for Halliburton, Cheney prospered, earning over $26 million in his last year as CEO alone.[20] He also had stock holdings in the company worth $46 million, and as late as 2002 – his second year as vice-president – Cheney received $162,393 in deferred compensation from the company.[21]

While the LOGCAP concept had been utilized in prior conflicts such as the wars in Bosnia and Kosovo, nothing had been undertaken on the sheer scale involved in supporting 150,000 U.S. troops in Iraq and surrounding nations. Halliburton profited handsomely from its logistics role, with its Pentagon contracts jumping from $483 million in 2002 to over $6 billion in 2006.[22] Moreover, billions of dollars awarded to Halliburton went unaccounted for as the Pentagon actually reduced its number of auditors and contracting officers even as spending in Iraq ballooned.[23]

Halliburton was only one example of a company that capitalized on a climate of chaos and corruption that allowed contractors to reap excessive profits on the war even as they failed to perform promised work or supplied shoddy products. In the first year of the U.S. occupation of Iraq alone, over $12 billion in cash was disbursed for reconstruction activities; in some cases contractors were told to bring bags with them to collect shrink-wrapped bundles of money that served as payment for their services.[24] Stuart Bowen, the Special Inspector General for Iraq Reconstruction (SIGIR), described his experience with this practice in testimony before the congressional Wartime Contracting Commission: "The CPA put my office--unwittingly, I suppose--right next to the Comptroller's office, and there I saw duffel bags full of money being carted out the door. I knew this was a huge problem. And then walking the halls that same day, I heard someone lean over to another and whisper, "'We cannot do that anymore. There is a new Inspector General here.'"[25]

Companies taking advantage of this situation ranged from large multi-national firms like Bechtel and Parsons, which were cited for inadequate and incomplete work on scores of projects involving everything from electricity and water projects to schools and health clinics, to "start-up" firms like Custer Battles and Nour USA.[26]

Custer Battles, a firm that had contracts to guard the Baghdad airport and to collect the old Iraqi currency – the dinar-- -so it could be destroyed, was a prime example of a firm that benefited from the "wild west" atmosphere that prevailed in Iraq in the early years of the occupation. The principals in the firm had no prior experience in airport security and had never before received a government contract, but they had underbid more established companies and promised to get to work more quickly. But when an Army official inspected their operations he learned that they had hired security guards with no prior training, and no knowledge of legal standards that applied to their work in Iraq. They had hired no translators who spoke Arabic. And they had no security dogs to detect explosives. And as *Los Angeles Times* reporter T. Christian Miller noted, Custer Battles employees lived in relative luxury compared to U.S. military personnel: "At a time when U.S. soldiers were still living in tents, Custer Battles had built a pool, installed air-conditioning, and set up a wireless internet connection for themselves. They could afford to, with the government shoveling money at them." In short, they were lining their pockets while providing little real security for the airport.[27]

The company's performance on its contract to collect and replace all Iraqi currency was no better. It built sub-standard quarters for workers involved in the operation, and supplied trucks that broke down so frequently that the general in charge of overseeing the project had to beg commanders in the field to lend him military trucks to get the job done.[28]

Custer Battles brief and ignominious career in government contracting finally came to an end when a consultant on the project found a spreadsheet that documented gross overcharging by the company, not to mention the provision of fake leases and bills for services not provided, using phony front companies in the process. Ultimately the company was barred from receiving government contracts and had to pay $10 million in fines, but neither of the owners ever faced criminal charges. Exact figures on how much profit Custer Battles made from its corrupt dealings in Iraq are not available, but circumstantial evidence suggests that they significantly exceeded the value of the fines. The company won $100 million in Iraq-related contracts in 2004 alone, and given their practice of regular overcharges and billing for the services of non-existent companies, profits for that year most likely exceeded 10 percent, which would suggest that the $10 million fine may have been less than one year's profit for Custer Battles. In another example of how much the partners benefited from their unethical dealings, Battles asserted that he had been paying himself $3 million a year as CEO of the company.[29]

Frank Willis, an American who served as an advisor to the Iraqi transportation ministry during this period, described Custer and Battles as follows: "They are what I call war profiteers. It's called playing the chaos, and they were masters at it."[30]

Waste, fraud and abuse in war contracting has not been limited to Iraq, nor has it been brought under control since the Halliburton and Custer Battles scandals. A report from the congressional Wartime Contracting Commission has found that $34 billion was misspent in Iraq and Afghanistan over the past decade.[31] Examples included building a $40 million police academy that will be too expensive for the Afghan government to maintain, to the construction of a large water treatment plant in Iraq that produced dirty water and lacked steady electricity to keep it in operation, to funding a community development project that pays up to 20 percent of its grants as "protection money" to the Taliban. Meanwhile, a military-led investigation found that a significant portion of $2 billion worth of transportation contracts let to six Afghan and two American companies ended up as kickbacks to warlords, police officials, or direct payments to the Taliban, sometimes $1,500 to $2,000 per truck.[32]

Private Security Contractors

Another sector that has benefited greatly from the wars in Iraq and Afghanistan has been a growing cohort of private security contractors, most notably Blackwater (now known as Xe), that supplied armed personnel to guard embassies, oil pipelines and other critical facilities. Blackwater is best known for its role in the massacre of 17 Iraqi civilians in Nisoor Square in September 2007.[33] Blackwater was just one of dozens of private security contractors providing similar services in Iraq. Many of the same firms that were involved in Iraq have now gone on to work in Afghanistan as the U.S. presence there has grown.

It is interesting to note that many of Blackwater's most lucrative contracts have been with the State Department, not the Pentagon, an example of the spread of national security contracts to other agencies that has been characteristic of the post-9/11 period.[34]

While the Nisoor Square massacre was an extreme case of misconduct by security contractors, there has been a larger problem of lack of accountability by personnel operating in this sector. As noted in an October 2008 report by the New America Foundation, "Since the onset of military operations in Iraq and Afghanistan, there has been a troubling lack of accountability for private security contractors, who have operated with virtual legal immunity."[35] At the beginning of the Iraq war, for example, private contractors had immunity from local law, and were not covered under the Uniform Code of Military Justice. A relevant statute, the Military Extraterritorial Justice Act, had limited investigative and enforcement mechanisms.[36] As a result, as of October 2008 only two contractor personnel had been convicted for crimes committed in Iraq or Afghanistan. As of 2010, steps had been taken to close these gaping loopholes, but a 2010 Congressional Research Service study concluded that despite these changes, "some private security contractors may remain outside the jurisdiction of U.S. courts, civil or military, for improper conduct in Iraq or Afghanistan."[37]

This potential lack of accountability was particularly severe in the case of private contractors involved in the Abu Ghraib torture scandal in Iraq. Despite the fact that all of the translators working at the prison worked for a private contractor – the Titan corporation – and nearly half of the interrogators worked for another – CACI – no private contract employee faced charges as a result of the scandal.[38] An Army report indicated that one CACI employee, Steven Stefanowicz, lied about his knowledge of abusive activities and told military police to engage in practices that he "clearly knew . . . equated to physical abuse."[39] No charges were filed against Stefanowicz as a result of these findings. Another civilian was accused of raping an Iraqi inmate. In all, six contractor employees were referred to the Justice Department for prosecution, but no charges have been filed against any of them.

Private contractors have also caused confusion and increased risk on the battlefield due to their unclear position relative to the military chain of command. Secretary of Defense Robert Gates acknowledged this problem in January 2009 congressional testimony when he noted that the Pentagon has acted "without any supervision and without any coherent strategy on how we were going to do it and without conscious decisions about what we will allow contractors to do . . . We have not thought holistically or coherently about our use of contractors, particularly when it comes to combat environments or combat training."[40]

The conduct of private security firms in Afghanistan appears to be little better than what was experienced at the height of the Iraq war. According to the *Wall Street Journal* , in 2010 Senate investigators "found evidence that the mostly Afghan force of private security guards the U.S. military depends on to protect convoys and bases in Afghanistan had ties to criminals, insurgents and local warlords."[41]

Weapons Contractors

The third major set of beneficiaries of the wars is composed of companies like Lockheed Martin, Boeing, and Northrop Grumman that supply the weapons used in the conflicts. The wars in Iraq and Afghanistan created a huge market for weapons acquisition and repair. New weapons procurement alone – funded through the war accounts – totaled over $215 billion from 2004 through 2010.[42] Although that there has been more than enough already budgeted to replace equipment lost during the war, it is likely that additional tens of billions will be requested for so-called "reset" activities, defined as restoring the equipment of military units to pre-war levels.[43] Major items purchased include Lockheed Martin Hellfire missiles, which are fired from Predator drones in attacks in Pakistan, Afghanistan, and Yemen; the Predators themselves, built by General Atomics; Global Hawk unmanned surveillance vehicles, built by Northrop Grumman; bombs like Boeing's Joint Direct Attack Munition (JDAM); armored vehicles like the Mine Resistant Ambush Protected vehicle (MRAP), built by Force Protection Industries and BAE Corporation, among others.[44] In addition, heavy usage of aircraft like the Lockheed Martin F-16, the Boeing F-18, and the Northrop Grumman B-2 bomber is being used as a rationale to accelerate the purchase of a new generation of systems in larger quantities than might otherwise have been the case.

In some cases weapons purchases that have been enabled by the political environment fostered by the Global War on Terror have had little to do with actual defense requirements. This was the case with the initiative to lease 100 aerial refueling tankers from Boeing – systems that were inserted in the budget by Congress, not as part of the Air Force's formal budget request. The deal was clearly crafted to help Boeing cope with twin setbacks – the decline in air travel after September 11th and the loss of the F-35 Joint Strike Fighter to Lockheed Martin. But it made little sense, either strategically or economically. At $26 billion, the leasing deal was billions of dollars more expensive than simply buying new aircraft, according to an analysis done by the White House Office of Management and Budget.[45] And there was reason to believe that the tankers were not urgently needed – even the oldest tankers in the Air Force had potential service lives extending through 2040.[46]

When Sen. John McCain (R-AZ) heard about the deal, he stated bluntly that "this is war profiteering."[47]

The company's most important congressional ally in the deal was the late Sen. Ted Stevens (R-AK), at that time the head of the Senate Appropriations Committee. Stevens was the one who inserted the amendment into the defense budget bill requiring the Pentagon to lease 100 Boeing 767s and convert them into refueling aircraft. Right before he took this action on the company's behalf, Stevens was feted in a Seattle fundraiser that yielded $22,000 for his re-election campaign.[48] Joining Stevens in his avid support of the Boeing tanker lease were the company's two senators from its home base in Washington state, Patty Murray (D-WA) and Maria Cantwell (D-WA).

The company also employed retired military and Pentagon officials to promote the tanker deal, including retired admiral David Jeremiah and retired Air Force general Ronald Fogelman, who worked as paid consultants to Boeing even as they served on the Defense Policy Board (DPB), an influential Pentagon advisory committee.[49] The board is supposed to serve as an independent source of confidential advice to the Secretary of Defense. To the extent that this advice impacts policy it gives members of the advisory panel inside knowledge of developments that may benefit their companies. In some cases, DBP members have traded on their insider status to recruit clients for their private consulting businesses. For example, in pitching his services to one potential client, Richard Perle asserted that "As the chairman of the Defense Policy Board, I have a unique perspective on and intimate knowledge of . . . national defense and security issues."[50]

In another example of influence peddling with respect to the tanker deal Richard Perle wrote an op-ed praising the Boeing tanker deal after the company invested $20 million in Perle's investment firm, Trireme.[51]

Stevens and Boeing had advocates inside the executive branch as well. Bush administration Secretary of the Air Force James Roche – a former executive at Northrop Grumman, a frequent partner with Boeing on major weapons contracts – pushed strongly for the deal. And once it was under way, Pentagon procurement official Darleen Druyun was extremely generous in her negotiations with Boeing over the terms of the deal. It ended up that there was a good reason for that – even as she was supposed to be driving a hard bargain with Boeing, she was negotiating for a lucrative job as an executive at the company. When this relationship was revealed due to the work of Sen. John McCain's office, Druyun was the subject of a criminal investigation that ultimately led to her being sentenced to nine months in federal prison.[52] The deal was then revoked, leading to a long and convoluted competition that ended up with Boeing winning the contract yet again in February 2011, nearly ten years after the original arrangement was orchestrated on the company's behalf.[53]

The most important aspect of the Boeing campaign for the Air Force tanker deal was that the company got caught. But its approach to winning contracts is not unique. Similar corrupt tools of influence are used by contractors on a regular basis in their dealings with Congress, the public and the Executive Branch, albeit not necessarily to the same extreme degree. Campaign contributions to key legislators, use of the revolving door to influence decisions over major weapons purchases, hiring of high profile lobbyists and public relations aides, and leveraging of plant locations to garner support on pork barrel grounds are all tools of the trade for military contractors. In most instances these practices are perfectly legal, except in cases like that of Darleen Druyun when companies and individuals take extreme measures that go beyond the relatively lax controls that exist with respect to influence peddling in the realm of military contracting.

Contracting for Homeland Security and Intelligence

One of the major developments in post-9/11 contracting has been the growing role of agencies beyond the Pentagon, most notably the Department of Homeland Security, an amalgam of 22 government agencies that was formed in November 2002 as a result of legislation championed by Sen. Joseph Lieberman (D-CT). One of the largest agencies so absorbed was the U.S. Coast Guard, which let the largest contract in the brief history of the department, an across-the-board modernization plan named Deepwater.

The Deepwater project started out as a $17 billion effort that would build the equivalent of a small navy, with over 90 new ships, 124 small boats, nearly 200 new or refurbished helicopters, over four dozen Unmanned Aerial Vehicles (UAVs), and an integrated surveillance and communications system that would allow all of these components to share critical information in real time. The goal of the project was to give the Coast Guard the capability to do everything from stopping ships far from U.S. shores to running names of crew members through criminal and intelligence data bases to checking for individuals who might be acquiring biological, chemical or radiological weapons or materials.[54] The contract was considered "innovative" because it gave Lockheed Martin and Northrop Grumman roles not only as providers of equipment, but as overall architects of the program, doing everything from selecting ship designs to deciding on which other contractors could participate in the program. The Bush administration suggested that this approach would lead to reduced bureaucracy and increased efficiency. But what it ended up demonstrating is that contractors can be far less efficient than the federal government at running a major program like Deepwater.
"It's the fleecing of America," said Anthony D'Armiento, an engineer who worked for the Coast Guard and Northrop Grumman on the project. "It's the worst contract I've seen in my 20-plus years in naval engineering."[55]

The Coast Guard's original decision to give Lockheed Martin and Northrop Grumman the lead roles in the Deepwater project was political. As former Coast Guard budget analyst Jim McEntire put it, "They have armies of lobbyists, and they can help get dollars to get the job done. The White House and Congress listen to big industrial concerns."[56]

When the companies got the Deepwater contract in June 2002 there was intense pressure to get new ships and planes deployed as soon as possible. But major problems emerged almost immediately. The first major piece of the project was a plan to extend the length of the Coast Guard's main patrol boats from 110 to 123 feet. It produced eight ships that were unusable, with hulls that cracked when to boats went to sea and engines that didn't work properly. The work, which cost over $100 million, proceeded despite warnings from Coast Guard engineers that the proposed design for the expanded ships was faulty.[57]

Work on the next largest ship in the project, the Fast Response Cutter, fared no better. The first boat couldn't even pass a simple test that involved putting it in a water tank, and production was postponed. Part of the problem seemed to stem from the fact that Northrop Grumman pushed for hulls made of nonmetal, composite materials. No boat of this size had ever used composite materials for its hull, but Northrop Grumman was determined, in part because it could steer business to its new, state-of-the-art composites manufacturing facility in Gulfport, Mississippi. A former Northrop Grumman facility said that "it was a pure business decision . . . and it was the wrong one."[58]

Similar problems emerged with the last major ship in the Deepwater project, the National Security Cutter, launched at a price of $564 million for the first copy. Hull cracks were soon found, and there were even concerns that the entire hull would collapse.

These problems led concerned members of Congress to seek significant cutbacks in the Deepwater budget, but a network of members from key states where elements of the system were being built managed to prevent that from happening, and even to get increased funding for the project. Key players included Sen. Olympia Snowe (R-ME), Republican Senators Trent Lott and Thad Cochran, and Rep. Frank Lobiondo (R-NJ), who had the National Coast Guard Training Center in his district and a Lockheed Martin testing center for Deepwater just outside of it. All of these members received campaign contributions from Northrop Grumman and Lockheed Martin. The two firms also helped fund the Navy League – an association of retired navy personnel – which ran a letter-writing and lobbying campaign on behalf of Deepwater. In the end, Congress voted to increase the long-term budget for Deepwater from $17 billion to $24 billion.[59] But in 2007 Lockheed Martin and Northrop Grumman were stripped of their leadership roles in the project. As of this writing, the Coast Guard was just beginning to field the first major ships in the Deepwater program – ten years after the 9/11 attacks.

Beyond the Coast Guard, other divisions of the Department of Homeland Security that gave major contract awards to defense contractors included the FBI, the Transportation Security Agency, and the Border Patrol. Lockheed Martin has a major player in these markets, doing everything from training airport security agents to running a 55 million-person fingerprint identification data base for the FBI. The company also does extensive work for the FBI on biometric identification devices, used for tasks such as recognizing a target individual by scanning their iris, doing facial recognition, and gathering DNA samples.[60] Boeing may have won the biggest prize of all, a contract to provide a wide array of surveillance technology for use in the U.S. government's Secure Borders Initiative (SBI). The program has cost $3.7 billion to date and is seven years behind schedule. The SBI is supplemented by a program that has been buying Predator Unmanned Aerial Vehicles (UAVs) for use in patrolling the border.[61]

Another growing source of revenue for private contractors in the wake of 9/11 has been servicing the intelligence community. Tim Shorrock describes this development in his path breaking book, *Spies for Hire:*

> Over the past ten years, the private sector has become a major supplier of tools and brainpower to the Intelligence Community. The CIA, the NSA, and other agencies once renowned for their analysis of intelligence and for their technical prowess in covert operations, electronic surveillance, and overhead reconnaissance have outsourced many of their core tasks to private intelligence armies. As a result, spying has blossomed into a domestic market worth nearly $50 billion per year.[62]

To cite just a few of the scores of available examples of the privatization in intelligence operations, more than a third of the 10,000 employees working for the CIA are now private contractors, not government employees.[63] And this includes not just intelligence analysts but even members of the agency's National Clandestine Service, which engages in covert operations and recruits spies overseas.[64] Private contractors are even involved in preparing the President's Daily Brief on intelligence matters. Major players in the intelligence outsourcing business include General Dynamics, SAIC, CACI International, Northrop Grumman and Lockheed Martin.

General Dynamics is on the cutting edge of intelligence outsourcing. Overall company revenues have tripled between 2000 and 2009, and the revenues of its divisions most engaged in top secret work have quadrupled. Between 2001 and 2010, "the company acquired 11 firms specializing in satellites, signals and geospatial intelligence, surveillance, reconnaissance, technology integration and imagery," according to the *Washington Post*'s "Top Secret America" project.[65] The company now has contracts with 16 different intelligence agencies.[66] But General Dynamics is not alone. A *Washington* Post investigation identified 1,931 companies doing top secret work for the federal government, of which 110 control about 90 percent of the business.[67]

Conclusion

As the issue of how to cut the federal deficit looms ever larger in Washington, the question for the arms industry is whether its glory days of the first decade of the 21st century are coming to an end. As of mid-2011, U.S. military spending was at its highest levels since World War II, and the Pentagon budget had increased for 13 years running, by far the longest such period of sustained growth in U.S. history.[68] Even without the deficit problem, a downward adjustment was overdue. But given that there is a raging debate in Washington over how to reduce the deficit, major contractors like Lockheed Martin and Northrop Grumman may be vulnerable to cuts in some of their most lucrative programs.

The budget deal reached by President Obama and the congressional leadership in August 2011 could theoretically trigger up to $850 billion in reductions in Pentagon spending from 2012 through 2021.[69] That's more than 10 percent of the department's planned expenditures of *$7.6 trillion* over that same time period. But given the complex structure of the deal and the numerous loopholes that may allow the Pentagon to dodge its fair share of cuts, the reductions are liable to be far less than $850 billion. The real indicator of whether significant defense cuts are in the offing will be the yearly budgets as submitted by the administration and acted upon by Congress, not a ten year pledge of the type entailed in the August 2011 budget deal. What is clear is that the Pentagon's ambitious budget plans will be scaled back considerably due to pressures caused by the push to reduce deficit spending.

Whatever the final outcome of the ongoing budget debates, it is clear that contractors will have to adjust to an environment in which Pentagon spending is not growing at the rates they have become accustomed to over the past decade-plus. The Pentagon's buying plans for a new generation of fighter planes, armored vehicles, helicopters, combat ships, unmanned aerial vehicles, bombers, ballistic missile submarines and other equipment were premised on never-ending growth in weapons budgets. So even a modest slowing of growth in military spending or a freeze at 2011 levels could cause significant upheaval in the world of weapons contracting. Weapons that have been targeted for potential elimination or cutbacks by independent analysts, the president's budget commission, and key members of Congress include the Virginia class submarine, Boeing's V-22 Osprey, and Lockheed Martin's F-35 Joint Strike Fighter.[70] Other systems are likely to face cuts as well.

Given these political realities, it can be expected that the arms industry's lobbying machine will kick into full gear to stave off reductions in military spending in general and cuts to specific weapons systems in particular. For example, in the last minute deliberations over the August 2011 budget deal, House Speaker John Boehner (R-OH) successfully held out for a formula that will dilute potential cuts in Pentagon spending by spreading them across a range of agencies beyond just the Department of Defense. By designating cuts as covering "security spending" rather than military or Pentagon spending, budgets for homeland security, veteran's affairs, international affairs, management of the intelligence community and the nuclear weapons activities of the Department of Energy would share the burden with the Department of Defense for certain spending reductions. This approach would shield the Pentagon from the full brunt of proposed spending cuts.[71]

Boehner carried out this budgetary maneuver on behalf of defense hawks in the Republican caucus, including most notably House Armed Services Committee chair Howard "Buck" McKeon (R-CA). McKeon is a powerful ally of the weapons industry. His top campaign contributors are Lockheed Martin and Northrop Grumman, and he has facilities of both firms in his district.[72] Other key members who can be expected to go to bat for specific contractors include Rep. Randy Forbes (R-VA), whose district is next to the Newport News Shipbuilding facility, which builds both aircraft carriers and Virginia Class submarines; and Rep. Norman Dicks (D-WA), who is always on the lookout for the interests of his home state contractor, Boeing. The Texas and Georgia delegations routinely rally around Lockheed Martin, which has major facilities in both states. The Missouri and Washington State delegations are pro-Boeing, and Massachusetts legislators strongly support projects involving Raytheon and General Electric. And these are just a few of the scores of members of Congress who have significant weapons manufacturing sites or military bases in their states and districts. The F-35 fighter program alone claims to have subcontractors in 44 states. And while these figures are often exaggerated to give the impression that major weapons programs have a wider economic reach than they actually do, they are nonetheless indicative of why it is so hard to cut specific weapons programs, even if they serve no clear mission.

The power of the arms lobby will make it difficult to impose fiscal discipline on the Pentagon, but not impossible. Military budgets have come down substantially at key turning points in the past, from the end of World War II and Korea, to the end of the Vietnam War, to the decade straddling the end of the Cold War. As President Eisenhower noted in his military-industrial complex speech, given in January 1961, when military spending was less than half what it is in 2011, the only guarantee against unwarranted influence by the weapons lobby is "an alert and knowledgeable citizenry."[73] The extent to which Pentagon spending – and the multi-billion dollar contracts that flow from it – is brought into line with strategic and economic reality will depend upon the degree to which the public takes notice, and speaks out on behalf of more balanced budget priorities.

Endnotes

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