Privatising the Pentagon

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> Seven years into George W. Bush's Global War on Terror, the Pentagon is embroiled in two big wars, a potentially explosive war of words with Tehran, and numerous smaller conflicts – and it is leaning ever more heavily on private military contractors to get by.
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> Once upon a time, soldiers did more than pick up a gun. They picked up trash. They cut hair and delivered mail. They fixed airplanes and inflated truck tires. Not anymore. All of those tasks are now the responsibility of private military corporations. In the service of the Pentagon, their employees also man computers, write software code, create integrating systems, train technicians, manufacture and service high-tech weapons, market munitions, and interpret satellite images.

People in ties or heels, not berets or fatigues, today translate documents, collect intelligence, interpret for soldiers and interrogators, approve contracts, draft reports to Congress, and provide oversight for other private contractors. They also fill prescriptions, fit prosthetics, and arrange for physical therapy and psychiatric care. Top to bottom, the Pentagon's war machine is no longer just driven by, but staffed by, corporations.

Consider the following: In fiscal year 2005 (the last year for which full data is available), the Pentagon spent more contracting for services with private companies than on supplies and equipment -- including major weapons systems. This figure has been steadily rising over the past 10 years. According to a recent Government Accountability Office report, in the last decade the amount the Pentagon has paid out to private companies for services has increased by 78% in real terms. In fiscal year 2006, those services contracts totaled more than $151 billion.

Ever more frequently, we hear generals and politicians alike bemoan the state of the military. Their conclusion: The wear and tear of the President's Global War on Terror has pushed the military to the breaking point. But private contractors are playing a different tune. Think of it this way: While the military cannot stay properly supplied, its suppliers are racking up contracts in the multi-billions. For them, it's a matter of letting the good times roll.

What a Difference a War Makes

As we prepare to close the book on the Bush presidency, it is worth exploring just how, in the last seven-plus years, the long War on Terror has actually helped build a new, privatized version of the Pentagon. Call it Military Industrial Complex 2.0.

Consider fiscal year 2001, which conveniently ended in September of that year. It serves as a good, pre-War on Terror baseline for grasping just how the Pentagon expanded ever since -- and how much more it is paying out to private contractors today.

Back then, the Pentagon's top 10 suppliers shared $58.7 billion in Department of Defense (DoD) contracts, out of a total of $144 billion that went to the top 100 Pentagon contractors. Number 100 on the list was The Carlyle Group with $145 million in contracts. Keep in mind, of course, that this was the price of "defense" for a nation with no superpower rival.

Fast forward to 2007 and the top 10 companies on the Pentagon's list of private contractors were sharing $125 billion in DoD contracts, out of a total of $239 billion being shared among the top 100 contractors. The smallest contract among those 100 was awarded to ARINC and came in at $495 million.

In those seven years, in other words, contracts to the top 10 more than doubled, the size of the total pay-out pie increased by two-thirds, and the lowest contract among the top 100 went up almost four-fold.

Just as revealing, almost half the companies on the Pentagon's Top 100 list in 2007 were not even on it seven years earlier, including McKesson, which took in a hefty $4.6 billion in contracts and MacAndrews and Forbes which garnered $3.3 billion.

And here's a fact that makes sense of all of the above: Given the spectrum of services offered and the level of integration that has already taken place between the Pentagon and these private companies, the United States can no longer wage a war or even run payroll without them.

These have been the good times for defense contractors, if not for the military itself. Since September 2001, many companies have made a quantum leap from receiving either no Pentagon contracts or just contracts in the low hundred millions to awards in the billion-dollar range. Here are just a few portraits of companies that are booming, even as the military goes bust.

URS Corporation: This engineering, construction, and technical services firm based in San Francisco employs more than 50,000 people in 34 countries. A publicly-held firm, which recently acquired Washington Group International, it had numerous reconstruction contracts in Iraq. More than 40% of the company's revenue ($5.4 billion in 2007) comes from the federal government. Between 2001 and 2007, its Pentagon contracts increased more than a thousand fold (by 1,400%) from $169 million to $2.6 billion.

URS began the War on Terror at number 91 on the Pentagon's Top 100 list. It is now number 15.

Electronic Data Systems Corporation: Founded by political maverick Ross Perot, EDS is a global technology services company headquartered in Plano, Texas. In March, the Pentagon awarded it a $179 million contract to provide information technology support services to the Pentagon's Defense Manpower Data Center, its central archive of all kinds of data on personnel, manpower and casualties, pay and entitlements, as well as the whole gamut of financial information. The company -- which employs 139,000 people in 65 countries -- boasted $22.1 billion in revenue in 2007. Computer giant HP bought EDS in August 2008.

In 2001 the company occupied slot 71 on the DoD's Top 100 list with $222 million in contracts. By 2007, it had climbed to number 16 with $2.4 billion in contracts, an increase of almost 1,000%.

Harris Corporation: This communications and information technology company is headquartered in Melbourne, Florida, and employs 16,000 people. Harris boasted $4.2 billion in revenue in 2007, with more than one-quarter of that ($1.6 billion) coming from Pentagon purchases of communications and electronics capabilities like Falcon II high-frequency radio systems.

When the Global War on Terror began, Harris had a modest $380 million in Pentagon contracts (and was number 43 on that top 100 list); over the last seven years, it has steadily risen in rank and now is number 30.

KBR: Gaming the System

The United States first heard the phrase "military industrial complex" during President Dwight David Eisenhower's January 17, 1961 Farewell Address. As he left public office, our last general-turned-president warned that the "conjunction of an immense military establishment and a large arms industry is new in the American experience" and its influence -- "economic, political, even spiritual -- is felt in every city, every Statehouse, every office of the Federal government...

"In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist."

If, in many ways, Ike's comment is still applicable, in the last 47 years the Military Industrial Complex (MIC) he described has evolved in startling ways -- and massively. Today, it does more than wield influence; it has created unparalleled dependence and unrivaled profit.

What this means in practice can be illustrated by KBR, a privately-held company that does not publish quarterly reports. Nonetheless, its recent history provides an object lesson in what the MIC 2.0 can do for the profitability of a private contractor.

KBR has shadowed the US military every step of the way through the invasion and occupation of Iraq: first as Kellogg Brown and Root, a subsidiary of Halliburton (for which Dick Cheney was once CEO), and then as KBR, an independent company. It has, in fact, made its corporate fortune on the Pentagon's now infamous "no-bid," "cost-plus contracts." Since December 2001, KBR has been working for the Pentagon under the Logistics Civil Augmentation Program (LOGCAP) -- a multi-billion dollar agreement that guarantees the company those cost-plus profits for fulfilling contracted tasks.

This huge and sweeping contract was awarded without the rigors of the competitive marketplace. Its "no-bid" nature was a sign that KBR was anything but a run-of-the-mill Pentagon contractor. A second sign lay in the Pentagon's acceptance of that cost-plus arrangement. A rarity in the business world, "cost plus" means that the more a job costs, the more profit the company pockets. Professor Steve Schooner, a contract expert at George Washington University Law School, commented, "Nobody in their right mind would enter into a contract that basically says, 'come up with creative ways to spend my money and the more you spend the happier I'll be.'" Under this contract, the Pentagon has doled out $20 billion to KBR to build and staff facilities for military personnel in Iraq and provide food and other necessities to US troops there.

Ironically, the Pentagon isn't even getting what it paid for... not by a long shot. KBR's fraudulent activities have, according to the Government Accountability Office, included the failure to adequately account for more than a billion dollars in contracted funds; the leasing of vehicles to be used by company personnel for up to $125,000 a year (despite the fact that these vehicles could have been purchased outright for $40,000 or less); the purchase of unnecessary luxuries such as monogrammed towels for use in company-run recreation facilities for military personnel; the overcharging for fuel brought into Iraq from Kuwait for military use; the charging to the Pentagon's tab three to four times as many meals as were actually consumed by US military personnel; and the provision of unclean water for US troops.

All of these abuses came to light thanks to investigations by Representative Henry Waxman (D-CA), the Pentagon's own Office of the Inspector General, and others, but Halliburton and its former subsidiary got off with little more than such wrist slaps as the revocation of the fuel supply contract and of KBR'S exclusive LOGCAP contract for Iraq. That was recently divided into three parts and put out to bid. KBR was, however, allowed to join the bidding, and is now sharing the contract with DynCorp and Fluor Corporation. Each company has received a $5 billion contract that includes nine one-year options for renewal that could be worth, in total, up to $150 billion, according to Dana Hedgpeth of the Washington Post.

The most recent of many black marks against KBR came when members of Congress and investigators charged that substandard electrical work by company employees in showers at military bases in Iraq had resulted in the electrocution deaths of 16 American soldiers.

To understand what privatization means in action at the Pentagon, consider just one modest example of the corruption that infects KBR and how it was addressed. In 2004, the company submitted requests for reimbursement on more than one billion dollars in charges that Army auditors deemed "questionable," in part because they weren't backed up by reliable records. Charles Smith, the Army official managing Pentagon contracts, refused to approve the payments and threatened to levy fines against the company if it did not get a better handle on its spending. Later, he told James Risen of the New York Times that KBR had "a gigantic amount of costs they couldn't justify. Ultimately, the money that was going to KBR was money being taken away from the troops."

Despite his 31 years with the Army, and without notice, Smith was transferred from his post, while the requested payments were subsequently sent to KBR. According to the New York Times, the Army argued that "blocking the payments to KBR would have eroded basic services to the troops. They said that KBR had warned that if it was not paid, it would reduce payments to subcontractors, which in turn would cut back on services."

In other words, the Pentagon -- in charge of hundreds of billions of dollars and more than a million personnel in and out of uniform -- was essentially held hostage by a company which threatened to withhold services that (just to be clear) had been pretty shoddy to begin with.

Senator Robert Byrd (D-WV) saw the problem: "We have found ourselves dependent on profit-oriented companies for even the day-to-day basics of feeding and housing our troops, [and] for carrying out a myriad of other functions of the mission, including security. These kinds of contracts opened the door for every manager to game the system in order to maximize profits."

And game the system they do. For example, the sort of corruption that seems endemic to KBR has created a profitable new market for another kind of private military corporation -- one specializing in oversight and accountability.

After the Army replaced Smith, it hired RCI Holding Corporation to review KBR's records. Smith says the private company "came up with estimates, using very weak data from KBR," while ignoring audit information gathered within the Pentagon. While KBR was subsequently awarded high performance bonuses and a portion of that new 10-year contract with the Army, Serco (RCI Holding's parent company) also received a new contract -- to continue to oversee KBR's contracts.

And so dependency begets deeper dependency, while corruption, incompetence, and callous indifference become ever more ingrained in the military way of life.

During his first presidential campaign, George W. Bush identified Christ as his favorite political philosopher. But as the first American President with a Masters of Business Administration (and from Harvard, no less), he has done a much better job of applying the profit-first principles of Donald Trump and Jack Welch than exemplifying the man from Galilee who promised the rich young man "treasure in heaven" once he sold all he owned and gave it to the poor. As president, Bush has brought a corporations-can-do-no-wrong perspective to the Oval Office and quickly sought to give the private sector an ever freer rein over a smorgasbord of public works and services. Today, the military sector leans remarkably heavily on private corporations to perform what used to be their basic functions, from war to disaster relief to washing the dishes. KBR is just one multi-billion dollar example of the MBA presidency's legacy.

Beyond Blackwater: The Pentagon's Cubicle Mercenaries

The new Complex 2.0 regularly employs companies whose job it is to send armed mercenaries into action beside US soldiers or to guard US diplomats and high military officers. Fighting wars for hire has become an essential part of the Pentagon's MO since 2001, and the Blackwater employee gunning through Baghdad in a Kevlar vest, a kafiyah, and wrap-around shades is the ultimate symbol of the new moment.

But there's another dimension of the Bush era's privatization surge at the Pentagon that has gotten far less coverage: Private military firms are also doing the paperwork of war. According to a March 2008 GAO report, Additional Personal Conflict of Interest Safeguards Needed for Certain DoD Contractor Employees, in offices throughout the Department of Defense, cubicle mercenaries in startling numbers are working shoulder-to-shoulder with uniformed military staff and federal employees.

The Government Accountability Office (GAO) looked at 21 different Pentagon offices and found that private contractors outnumbered Department of Defense employees in more than half of them. In the engineering department of the Missile Defense Agency, for example, employees from private contractors made up more than 80% of the work force. The GAO found that contractors were responsible for carrying out a wide range of tasks and were not subject to federal laws and regulations designed to prevent conflicts of interest -- including the rules that concern personnel who want to take positions with companies they had awarded contracts to as federal employees.

Another March 2008 GAO report assessed the Army's Contracting Center of Excellence where private contractors made up less than 20% of the workforce. The average hourly cost of an employee from a private contractor, however, was more than 26% higher than that of a government employee. Similar disparities in pay can be seen even more starkly in Iraq, where a soldier is paid little more than minimum wage, while a private military contractor can earn well above $100,000 a year tax-free.

For perhaps the ultimate contrast in military privatization, consider this: Testifying at a Congressional hearing in July, Blackwater CEO Erik Prince offered a ballpark estimate for his annual salary -- "more than a million." He assured Representative Peter Welch (D-VT) that he would "get back" to him with a more exact figure. Welch noted at the time that General David Petraeus -- then responsible for more than 160,000 US military personnel in Iraq -- earned $180,000 a year.

Privatization at the Bottom

Once private companies take on military and war-making tasks, where does the buck stop? It is not uncommon, for example, for a company hired to perform a service for the Pentagon to subcontract part of the job to another company, which may then subcontract part of its task to a third. Who, then, is in charge? When something goes wrong, who is culpable?

A recent investigation by Craig and Marc Kielburger, Canadian co-founders of the NGO Free the Children, and Toronto-based journalist Chris Mallinos found that KBR has subcontracted to more than 200 different firms -- many based in Kuwait -- to transport materials into Iraq.

One result of this: The United States has ended up paying companies that are essentially enslaving Filipinos, Sri Lankans, and other "third country nationals" who drive supplies into Iraq. In a recent article in Epoch Times, the trio recount a series of fact-finding trips to Kuwait to meet with dozens of South Asian and Filipino men "recruited to the Middle East with the promise of good jobs, only to be hired by Kuwaiti transport companies driving into Iraq." A Filipino described how Jassin Transport and Stevedoring Company -- one of KBR's sub-subcontractors -- took his passport, nullified the contract he had signed in the Philippines, and issued him a new contract written in Arabic. Employees were "given an ultimatum: sign or be abandoned." Then they were handed the keys to unarmored tractor-trailer trucks and told to drive fast along roads known to be dangerous. The authors concluded that these companies "openly flout US labor laws by using cheap imported labor, withholding employee passports and housing workers in decrepit conditions."

Officially, nothing like this is supposed to happen. The Philippines, Nepal, and other countries bar their citizens from taking work in Iraq. In 2006, the Defense Department actually issued stricter regulations forbidding such labor trafficking, and KBR and other companies pledged that they and their subcontractors would follow local labor laws. But regulations or no, the truth is that the Pentagon is no longer really in control of the process, and sub-sub-subcontracting is how you make the big money in places like Iraq.

Oh... and despite hearings, investigations, and legislation, Congress isn't in control either. In an attempt to address the privatization of the military, for example, the Senate's Democratic Policy Committee has held a total of seventeen hearings on waste, fraud, and corruption in Iraq. Representative Henry Waxman's Oversight and Government Reform Committee has made the role of congressional gadfly respectable. Hearings in both the House and Senate have offered riveting, sometimes shocking, inside-the-Beltway theater, but subsequent legislation created to make decent Pentagon reporting and oversight a reality, close gaping loopholes in accountability, criminalize fraud, and curb some of the worst abuses of private contractors has proven well-meaning but hopelessly weak and ineffective in practice.

Is MIC 3.0 in our Future?

President Bush will leave office boasting that the United States has the most powerful and professional military machine in the world. We have paid dearly for this machine in the past seven-plus years. The bill for all that might and muscle comes to more than $3.8 trillion since 2001 -- plus another $900 billion plus for actually flexing it in Iraq, Afghanistan, and elsewhere.

And if the US military machine is now both oversized and staggeringly expensive, it is also more prone to breakdown in a more dangerous and unstable world. So think of George W. Bush's legacy to us as a Pentagon bloated almost beyond recognition and crippled by its dependence on private military corporations.

As for Bush's legacy to the Lockheed Martins, the KBRs and the Pentagon's whole "Top 100" crew, it's been money beyond measure, enough to leave them all hard at work on Military Industrial Complex 3.0. They naturally want to make sure that the money continues to pour into their ever upgrading war machine, no matter who takes over the White House in 2009.

http://www.atimes.com/atimes/Middle_East/JI16Ak01.html
