

Soldiers versus Contractors¹: Emerging Budgetary Reality?

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Introduction

This year's 7% increase notwithstanding, the Pentagon budget is expected to level out over the next few years. With budget deficits exceeding \$400 billion per year, moves to make President Bush's tax cuts permanent, and tens of billions being allocated for rebuilding in the wake of Hurricane Katrina, even the seemingly untouchable Pentagon budget will eventually have to share some of the cuts spurred by tight budgets. This is potentially bad news for major defense contractors like Boeing, Lockheed Martin, Northrop Grumman, and General Dynamics. These companies are already involved in major weapons programs that exceed the funds available under long-term Pentagon budget projections. While they are hardly hurting for funds – the four contractors referenced above split \$51.8 in Pentagon prime contracts in FY 2005 – they can be expected to lobby vigorously against attempts to cut back or eliminate specific weapons programs.²

Even if cuts in the Pentagon budget occur, the big contractors may not be the first ones on the chopping block. In a dinner meeting with top industry executives in early December of 2005, Deputy Defense Secretary Gordon England (formerly of General Dynamics) assured them that there are no big program cuts in the offing, at least for now. He had written an internal memorandum calling for \$32 billion in Pentagon cuts over five years. If these cuts were to be implemented next year and beyond, they would represent only about 1.3% of the Pentagon's \$2.3 trillion five-year plan. Nonetheless, the big companies have been anxious about the future of key projects. But the upshot of the meeting with Deputy Secretary England was that if cuts are made in the Pentagon budget, a substantial part of them may come from reducing Air Force personnel levels and slowing the planned growth of the Army's troop strength. As the Wall Street Journal has observed, "the shift is good news for the nation's major defense contractors, which appear to have dodged major cutbacks in big-ticket weapons purchases." (Jonathan Karp, Andy Pasztor, and Greg Jaffe, "Pentagon Weighs Personnel Cuts to Pay for Weapons," December 5, 2005).

¹ The title of this briefing paper was inspired by a New York Times editorial that ran on December 15, 2005, entitled "Soldiers Versus Defense Contractors."

² U.S. Department of Defense, Washington Headquarters Services, Directorate of Information, Operations, and Reports, "100 Companies Receiving the Largest Volume of Prime Contract Awards – Fiscal Year 2005."

Soldiers Versus Contractors: Conflict on the Horizon?

A series of unique circumstances may conspire to pit the financial interests of Pentagon mega-contractors against the need to sustain appropriate levels of well-trained, well-equipped troops during wartime. The wars in Iraq and Afghanistan will combine with the factors above to put a strain on the Pentagon's budget for non-war related items. Contrary to popular wisdom, not all wars are good for weapons contractors. Wars of counterinsurgency are far more likely to require basic equipment than the multi-billion programs for fighter planes, submarines, missile defense and nuclear weapons that are the bread-and-butter of the Lockheed Martins and Northrop Grummans of the world. In the emerging budgetary environment, there are limits to how long this administration – or any other – can pay for two wars *and* purchase a series of big ticket systems that have little relevance to current military needs.

A little-noticed element of Democratic Rep. John Murtha's call for U.S. withdrawal from Iraq was a concern that the ongoing costs of the war would drain money from modernization of U.S. weaponry. He said that he had started telling contractors that they might have to think in terms of making their living by upgrading and repairing existing systems. He was also concerned about the tradeoffs between the needs of military personnel and veterans versus weapons programs. He sees these tradeoffs being driven by the costs of the Iraq war, which are running at \$1.5 billion per *week*. He expressed his concerns on this point as follows:

“Defense budgets are being cut. Personnel costs are skyrocketing, particularly in health care. Choices will have to be made. We cannot allow promises we have made to our military families in terms of service benefits, in terms of health care, to be negotiated away. Procurement programs that ensure our military dominance cannot be negotiated away.”³

Even if procurement and research and development budgets stay on the upward path they have been on since this administration took office in 2001 – as they are proposed to do in the FY 2007 budget – there is no guarantee that the big contractors won't still have to bring their lobbying muscle to bear to maintain funding for some of their big ticket programs. That's because the fastest growing contractors are involved in providing goods and services in Iraq, not big ticket weapons systems for future use. Companies with major profiles in Iraq -- like Halliburton (12,646%), Dyncorp International (200%), Bechtel (139%), Parsons (104%), and Washington Group International (126%) have seen their Pentagon prime contracts double, triple, or – in Halliburton's case – increase by more than tenfold between 2001 and 2005. By contrast, the top two defense contractors – Lockheed Martin (32%) and Northrop Grumman (38%) – have had healthy but much smaller gains of about one-third each over the same time period.⁴

³ The Honorable John P. Murtha, “War in Iraq,” press release, November 17, 2005.

⁴ Calculations by the author, utilizing “Top 100” contractors document, op. cit., FY 2001 through FY 2005 editions.

Iraq: Big Budgets, Major Equipment Shortages

In the mean time, despite annual proposed military spending of over \$550 billion this year – counting \$120 billion in “emergency” supplementals for Iraq and Afghanistan – U.S. troops in the field are still short of vital equipment ranging from up-armored Humvees, to top-of-the-line body armor, to adequate infantry rifles, to seemingly mundane items like properly fitting boots, flashlights, hydration systems, and padded backpacks.⁵

The most shocking recent example of inadequate equipment was a revelation by the New York Times that “as many as 80 percent of the Marines who have been killed in Iraq from wounds to the upper body could have been saved if they had had extra body armor.” The article notes that the improved armor, involving side-plates to cover unprotected areas of the sides of military personnel, has been available since 2003. The military’s medical examiner, Dr. Craig T. Mallak, had tried to publish anecdotal data and start a more systematic study on the vulnerability of current U.S. armor in 2003, but his efforts were delayed for two years because the Marines either refused or were not able to supply the \$107,000 it would cost to do the work. Since the New York Times article came out, the Army has announced an emergency \$70 million contract to supply side-plates for existing body armor, as part of a pledge to buy 230,000 sets of side-plates over an unspecified time frame. An Army spokesperson indicated that the service had spent the past year deciding on the weight and size of the new side plates.⁶

Similarly, the Pentagon and military services have been slow to procure adequately armored Humvees – acting only after complaints from troops in the field, their families, and key members of Congress. Even now, after hundreds of millions of dollars have been spent trying to rectify the situation, some units in the field still perform improvised upgrades on their vehicles while awaiting better-protected ones from the Pentagon.⁷

In addition to allocating funds to meet current needs of troops in the field, the costs of replacing or refurbishing equipment that has been chewed up during the war is estimated to be at least \$9 billion.

These shortages have as much or more to do with poor planning in the Pentagon than they do with tradeoffs on big ticket weapons systems. Despite indications to the contrary, Department of Defense planners assumed that the situation in Iraq would stabilize quickly once the regime of Saddam Hussein was overthrown. Therefore, they

⁵ For detail on items beyond the well-known problems with body armor and up-armored Humvees, see Winslow Wheeler, “Our Soldiers’ Unmet Needs,” Military.com, January 5, 2006.

⁶ Michael Moss, “Pentagon Study Links Fatalities to Body Armor,” New York Times, January 7, 2006.

⁷ “Soldiers Upgrading Armor on Humvees,” Associated Press, January 14, 2006.

did not plan for a counterinsurgency war and did not buy needed equipment in advance. But even after the war started, the Pentagon and military bureaucracies were painfully slow to meet the needs of commanders and enlisted personnel in the field. The most infamous example of this attitude was Donald Rumsfeld's comment that "you go to war with the Army you have" in response to a soldier's question about inadequately armored Humvees. James Fallows, *The Atlantic Monthly's* National Correspondent, has written that by 2004 "Donald Rumsfeld, according to those around him, was bored by Iraq in general" because it "could not match the challenge of transforming America's military establishment."⁸ This kind of inattention from the top may have been reinforced by a tendency of the military services to focus on keeping their "big systems" funded – the F-22 fighter for the Air Force, the Future Combat System for the Army, and major combat ships for the Navy – and letting day-to-day equipment needs fall through the cracks. If budgets tighten in the next few years, tradeoffs between buying battlefield equipment and big ticket items with no immediate relevance to current wars may intensify.

Private Contractors in Iraq: Letting Down the Troops?

There are three major categories of private military firms in Iraq: logistics support, reconstruction, and training/security. Each of these areas has an impact on the situation on the ground for U.S. troops, and in each of them there has been evidence of fraud, waste and abuse.

Halliburton is probably the best known U.S. contractor serving in Iraq. Its two main sources of revenue have been its contract under the Army's Logistics Civil Augmentation Program (LOGCAP) and its work on restoring Iraq's oil infrastructure. During the period of Halliburton's service in Iraq, the company has been found to have overcharged by a dollar a gallon or more for fuel trucked in from Kuwait; charged the Army for three times as many meals as it actually served to U.S. troops at several of its dining halls; been unable to account for how billions in reconstruction funds were spent; and wasted money on renting luxury vehicles, monogrammed towels, and other items of no relevance to rebuilding Iraq. These wasted funds hurt U.S. troops in two ways, by diminishing needed support services and – in the case of reconstruction contracts – fueling anger among average Iraqis.⁹

Examples of malfeasance in reconstruction can be found in the most recent report of the Special Inspector General for Iraq Reconstruction (SIGIR). At Hilla, in southern Iraq, an allegedly completed project on a 600-student police academy included cracks in the walls, leaks in the roof, gaps in the security perimeter that would allow the firing of weapons or placement of bombs on academy grounds, and numerous other deficiencies. A series of border forts in Sulaymaniyah were built with beams too weak to support their roofs in the event of snow; in addition, no perimeter walls were built to protect basic

⁸ James Fallows, "Why Iraq Has No Army," *The Atlantic*, December 2005, p. 70.

⁹ For an excellent running account of Halliburton's malfeasance in Iraq, see the section on Iraq Contracting and Reconstruction on the minority web site of the House Government Reform Committee at www.democrats.reform.house.gov, which contains analyses along with links to key government reports prepared by staff of ranking minority member Henry Waxman (D-CA).

equipment like electric generators, fuel tanks, and the water system, leaving them all vulnerable to sabotage. Another contractor decided to repair a hospital elevator instead of providing a new one as required in its contract. Shortly thereafter the elevator crashed and three people were killed. At the Al Hillah Olympic swimming pool, a contractor given over \$100,000 to replace the pump houses and pipes decided to just polish the old pipes instead.¹⁰

The final category of private firms – private military contractors – are probably the most controversial. These firms supply security for U.S. rebuilding contractors and certain U.S. and Iraqi officials, as well as guard oil pipelines and engage in training of the Iraqi police and military. There are several troubling characteristics of this sector that bear scrutiny. For example, at the moment there are no established standards for who can work for a private security firm, leaving plenty of room for fraudulent, fly-by-night operations. Second, private military contractors are not part of the official chain of command of the U.S. military, leaving open the possibility of lack of communication and coordination that can endanger U.S. troops on the battlefield. One consequence of this lack of coordination has been a series of “friendly fire” incidents in which U.S. troops fire on employees of private military firms. According to a report by the Government Accountability Office (GAO), this happens so frequently that those on the receiving end of the attacks don’t even bother to report them. Third, most employees of private military firms are not subject to the code of military discipline or the laws of war, making them less responsible for their actions than uniformed military personnel.¹¹ This issue arose in the case of the Abu Ghraib torture scandal, when employees of firms like Titan and CACI that were involved in translation and interrogation were not subject to the same investigation or potential prosecution as U.S. military personnel serving at the prison.

Finally, there is resentment over the fact that some private contractor personnel earn as much as \$33,000 per month, more than some U.S. troops earn in a year. This disparity leads to tensions in Iraq; it has also led significant numbers of experienced members of the Special Forces, military police, Navy SEALs, and other elite units to retire early from the service to take jobs with private military firms.¹² As the Government Accountability Office has noted, “the Senior Enlisted Advisor for the United States Special Forces Command stated that the loss of these mature, operationally experienced personnel creates critical operational risk for the Special Forces . . . This need to rely on less experienced personnel has created some concerns for the command.”¹³

¹⁰ Examples drawn from Special Inspector General for Iraq Reconstruction (SIGIR), January 30, 2006 Quarterly and Semiannual Report to Congress, pp. 70-90; and Edward Alden, “Security Costs Hit Rebuilding of Iraq Power Sector,” Financial Times, January 31, 2006.

¹¹ Examples in this paragraph draw on two key reports: United States Government Accountability Office, Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers, July 2005; and Congress of the United States, Congressional Budget Office, Logistics Support for Deployed Military Forces, October 2005.

¹² Information on private contractor salaries and the transfer of experienced military personnel to the private sector are from Government Accountability Office “Rebuilding Iraq,” op. cit.

¹³ Ibid, p. 42.

The issue of the interaction of private military contractors and uniformed military personnel is complex, but it is clear that at a minimum clearer rules of the road need to be established, including reconsidering which military responsibilities should be “outsourced” in the first place. So far, according to the GAO, “DoD and the services have not identified those contractors that supply mission essential services . . . [nor] developed backup plans to ensure that essential contractor-provided services will continue if the contractor for any reason becomes unavailable.”¹⁴ Second, minimum standards of training and vetting of private military contractor personnel must be established to guard against fraud and incompetence. Finally, much more rigorous procedures for communication and coordination between military units and private contractors must be established, particularly as regards activity near an active battle space.

Setting Budget Priorities

As suggested in their December 2005 meeting with Deputy Secretary of Defense Gordon England, the major contractors did not see significant cuts in major weapons programs in the FY 2007 budget released earlier this week. Unnecessary programs that were started during the Cold War and are still receiving lavish funding include the F-22 fighter (\$2.8 billion), the C-130J transport aircraft (\$1.6 billion), the V-22 Osprey (\$2.3 billion), the missile defense program (\$10.4 billion), and the Virginia class submarine (\$2.6 billion). Taken together, these five programs alone consume \$19.7 billion in Pentagon procurement and R&D funding in the FY 2007 budget request. An additional \$18 billion will be spent on our arsenal of nuclear overkill. This figure includes \$11 billion from the Pentagon budget for maintaining existing deployed systems and \$7 billion from the budget of the Department of Energy’s National Nuclear Security administration for nuclear warhead R&D and maintenance of the nuclear weapons complex. Eliminating the F-22, the C-103J, the Virginia Class submarine and the V-22 Osprey could save \$9.3 billion this year alone, leaving plenty of funding available to fund short-term equipment needs of troops in the field. Scaling back missile defense to a research program of \$2 billion per year and reducing the U.S. nuclear stockpile to 1,000 warheads while abandoning plans for new warheads or production facilities could save up to an additional \$13 billion per year.¹⁵

¹⁴ Government Accountability Office, Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DoD Plans, June 2003.

¹⁵ For detailed rationales and estimates for these cutbacks see Lawrence J. Korb, Caroline P. Wadhams, and Andrew J. Grotto, Restoring American Military Power: A Progressive Quadrennial Defense Review, Center for American Progress, January 2006, pp. 47-60; see also Marcus Corbin and Miriam Pemberton, editors, Report of the Task Force on a Unified Security Budget for the United States, 2006, the Center for Defense Information and Foreign Policy in Focus, May 2005.