America's Warfare State

Lining the pockets of Pentagon contractors

By Sherwood Ross
Global Research, August 17, 2009
17 August 2009

Region: USA
Theme: Global Economy, Militarization and WMD

"On my last day in Iraq," veteran McClatchy News correspondent Leila Fadel wrote August 9th, "as on my first day in Iraq, I couldn't see what the United States and its allies had accomplished. …I couldn't understand what thousands of American soldiers had died for and why hundreds of thousands of Iraqis had been killed."

Quite a few oil company CEO's and "defense" industry executives, however, do have a pretty good idea of why that war is being fought. As Michael Cherkasky, president of Kroll Inc., said a year after the Iraq invasion boosted his security firm's profits 231 percent: "It's the Gold Rush." What follows is a brief look at some of the outfits that cashed in, and at the multitudes that got took.

"Defense Earnings Continue to Soar," Renae Merle wrote in The Washington Post on July 30, 2007. "Several of Washington's largest defense contractors said last week that they continue to benefit from a boom in spending on the wars in Iraq and Afghanistan…" Merle added, "Profit reports from Northrop Grumman, General Dynamics and Lockheed Martin showed particularly strong results in operations in the region." More recently, Boeing's second-quarter earnings this year rose 17 percent, Associated Press reported, in part because of what AP called "robust defense sales."

But war, it turns out, is not only unhealthy for human beings, it is not uniformly good for the economy. Many sectors suffer, including non-defense employment, as a war can destroy more jobs than it creates. While the makers of warplanes may be flying high, these are "Tough Times For Commercial Aerospace," Business Week reported July 13th. "The sector is contending with the deepening global recession, declining air traffic, capacity cuts by airlines, and reduced availability of financing for aircraft purchases."

The general public suffers, too. "As President Bush tried to fight the war without increasing taxes, the Iraq war has displaced private investment and/or government expenditures, including investments in infrastructure, R&D and education: they are less than they would otherwise have been," write Joseph Stiglitz and Linda Bilmes in "The Three Trillion Dollar War"(Norton). Stiglitz holds a Nobel Prize in economics and Bilmes is former assistant secretary of the U.S. Department of Commerce. They say government money spent in Iraq does not stimulate the economy in the way that the same amounts spent at home would.

The war has also starved countless firms for expansion bucks. "Higher borrowing costs for business since the beginning of the Iraq war are bleeding manufacturing investment," Greg Palast wrote in "Armed Madhouse"(Plume). And when entrepreneurs—who hire so many—lack growth capital, job creation takes a real hit.

We might recall too, the millions abroad who filled the streets to protest President Bush's impending attack on Iraq and who have quit buying U.S. products, further reducing sales and employment. "American firms, especially those that have become icons, like McDonald's and Coca-Cola, may also suffer, not so much from explicit boycotts as from a broader sense of dislike of all things American," Stiglitz and Bilmes write. "America's standing in the world has never been lower," they say, noting that in 2007, U.S. "favorable" ratings plunged to 29 percent in Indonesia and nine percent in Turkey. "Large numbers of wealthy people in the Middle East—where the oil money and inequality put individual wealth in the billions—have shifted banking from America to elsewhere," they say.

Because the Iraq war crippled that country's oil industry, output fell, supplies tightened, and, according to Palast, "World prices leaped to reflect the shortfall…" What's more, he points out, after the Iraq invasion the Saudis withheld more than a million barrels of oil a day from the market. "The one-year 121% post-invasion jump in the price of crude, from under $30 a barrel to over $60, sucked that $120 billion windfall to the Saudis from SUV drivers and factory owners in the West." Count the Saudis among the big winners.

The oil spike subtracted 1.2% from the gross domestic product, "costing the USA just over one million jobs," Palast reckoned. Stiglitz and Bilmes said the oil price spike means "American families have had to spend about 5 percent more of their income on gasoline and heating than before." Last year, the Iraq and Afghan wars cost each American household $138 per month in taxes, they estimated. Count the Joneses among the big losers.

Palast writes, "It has been a very good war for Big Oil—courtesy of OPEC price hikes. The five oil giants saw profits rise from $34 billion in 2002 to $81 billion in 2004…But this tsunami of black ink was nothing compared to the wave of $120 billion in profits to come in 2006: $15.6 billion for Conoco, $17.1 billion for Chevron and the Mother of All Earnings, Exxon's $39.5 billion in 2006 on sales of $378 billion.

Palast notes the oil firms have their own reserves whose value is tied to OPEC's price targets, and "The rise in the price of oil after the first three years of the war boosted the value of the reserves of ExxonMobil oil alone by just over $666 billion…Chevron Oil, where Condoleezza Rice had served as a director, gained a quarter trillion dollars in value…I calculate that the top five oil operators saw their reserves rise in value by over $2.363 trillion." Who's surprised when Forbes reports of the ten most profitable corporations in the world five are now oil and gas companies—Exxon-Mobil, Royal Dutch Shell, BP, Chevron, and Petro-China.

"Since the Iraq War began," Matthew Rothschild, editor of The Progressive wrote, "aerospace and defense industry stocks have more than doubled. General Dynamics did even better than that. Its stock has tripled." An Associated Press account published July 23rd observed: "With the military fighting two wars and Pentagon budgets on a steady upward rise, defense companies regularly posted huge gains in profits and rosier earnings forecasts during recent quarters. Even as the rest of the economy tumbled last fall, military contractors, with the federal government as their primary customer, were a relative safe haven."

Among the big winners are top Pentagon contractors, as ranked by WashingtonTechnology.com as of 2008. Halliburton spun off KBR in 2007 and their operations are covered later. Data was selected for typical years 2007-09.

1.Lockheed Martin 2. Boeing 3. KBR 4. Northrop Grumman 5. General Dynamics 6. Raytheon 7. SAIC 8. L-3 Communciations 9. EDS Corporation 10. Fluor Corporation

Lockheed Martin, of Bethesda, Md., a major warplane builder, in 2007 alone earned profits of $3 billion on sales of nearly $42 billion.

Boeing, of Chicago, saw its 2007 net profit shoot up 84% to $4 billion, fed by “strong growth in defense earnings,” according to an Agence France-Presse report.

Northrop Grunman, of Los Angeles, a manufacturer of bombers, warships and military electronics, had 2007 profits of $1.8 billion on sales of $32 billion.

General Dynamics, of Falls Church, Va., had profits in 2008 of about $2.5 billion on sales of $29 billion. It makes tanks, combat vehicles, and mission-critical information systems.

Raytheon, of Waltham, Mass, reported about $23 billion in sales for 2008. It is the world’s largest missile maker and Bloomberg News says it is benefiting from “higher domestic defense spending and U.S. arms exports.”

Scientific International Applications Corp., of La Jolla, Calif., an engineering and technology supplier to the Pentagon, had sales of $10 billion for fiscal year ending Jan. 31, 2009, and net income of $452 million.

L-3, of New York City, has enjoyed sales growth of about 25% a year recently. Its total 2008 sales of $15 billion brought it profits of nearly $900 million. Its primary customer is the Defense Department, to which it supplies high tech surveillance and reconnaissance systems.

EDS Corp., of Plano, Tex., purchased by Hewlett-Packard in May, 2008, had 2007 sales of nearly $20 billion. Its priority project is building the $12 billion Navy-Marine Corps Intranet, said to be the largest private network in the world.

Fluor Corp., of Irvine, Tex., an engineering and construction firm, had net earnings of $720 million in 2008 on sales of $22 billion.

The good times continue to roll for military contractors under President Obama, who has increased the Pentagon’s budget by 4 percent to a total of about $700 billion. One reason military contractors fare so well is that no-bid contracts with built-in profit margins tumble out of the Pentagon cornucopia directly into their laps. The element of “risk,” so basic to capitalism, has been trampled by Pentagon purchasing agents even as its top brass rattle their missiles at socialist governments abroad. If this isn’t enough, in 2004 the Bush administration slipped a special provision into tax legislation to cut the tax on war profits to 7% compared to 21% paid by most U.S. manufacturers.

Former Halliburton subsidiary KBR, according to author Pratap Chatterjee in his “Halliburton’s Army”(Nation Books), raked in “more than $25 billion since the company won a ten-year contract in late 2001 to supply U.S. troops in combat situations around the world.” As all know, President Bush’s Vice President Dick Cheney previously headed Halliburton (1995-2000) and landed in the White House the same year Halliburton got its humungous outsourcing contract. Earlier, as Defense Secretary, (1989-1993) Cheney sparked the revolutionary change to outsourcing military support services to the privateers. Today, Halliburton ranks among the biggest “defense” winners of all.

Halliburton's army "employs enough people to staff one hundred battalions, a total of more than 50,000 personnel who work for KBR, a contract that is now projected to reach $150 billion," Chatterjee writes. "Together with the workers who are rebuilding Iraq's infrastructure and the private security divisions of companies like Blackwater, Halliburton's Army now outnumber the uniformed soldiers on the ground in Iraq."

Accompanying Pentagon outsourcing, Chatterjee writes, "is the potential for bribery, corruption, and fraud. Dozens of Halliburton/KBR workers and their subcontractors have already been arrested and charged, and several are already serving jail terms for stealing millions of dollars, notably from Camp Arifjan in Kuwait."

There's likely no better example of how Halliburton/KBR literally burned taxpayers' dollars than its destruction of $85,000 Mercedes and Volvo trucks when they got flat tires and were abandoned. James Warren, a convoy truck driver testified to the Government Affairs Committee in July, 2004, "KBR didn't seem to care what happened to its trucks…It was common to torch trucks that we abandoned…even though we all carried chains and could have towed them to be repaired."

Bunnatine Greenhouse, once top contract official at the U.S. Army Corps of Engineers, made headlines by demanding old-fashioned free enterprise competitive bidding. She told a Senate committee in 2005: "I can unequivocally state the abuse related to contracts awarded to KBR represents the most blatant and improper abuse I have witnessed" in 20 years of working on government contracts. Greenhouse was demoted for her adherence to the law, Chatterjee said, but she became a cover girl at "Fraud" magazine and was honored by the Giraffe Society, a tribute to one Federal employee who stuck her neck out.

Tales of Halliburton/KBR's alleged swindles fill books. Rory Maybee, a former Halliburton/KBR contractor who worked at dining facilities in Camp Anaconda in 2004 told the U.S. Senate Democratic Policy Committee "that the company often provided rotten food to the troops and often charged the army for 20 thousand meals a day when it was serving only ten thousand." Food swindling, though, is small potatoes. Say Stiglitz and Bilmes: "KBR has also been implicated in a lucrative insurance scam that has gouged U.S. taxpayers for at least $600 million."

To fatten profit margins, contractors who cheat U.S. taxpayers apparently think nothing of underpaying their help. "While the executives of KBR, Blackwater, and other firms are making profits, many of those performing the menial work, such as cooking, driving, cleaning, and laundry, are poorly paid nationals from India, Pakistan, and other Asian and African countries," Stiglitz and Bilmes write. "Indian cooks are reported to earn $3-$5 a day. At the same time, KBR bills the American taxpayer $100 per load of laundry." Blackwater, the security firm repeatedly charged with shoot-first tactics, fraudulently obtained small-business set-aside contracts worth more than $144 million, they assert.

According to "Blackwater"(Nation Books) by Jeremy Scahill, the security firm in 2004 got a five-year contract to protect U.S. officials in Iraq totaling $229 million but as of June, 2006, just two years into the contract, it had been paid $321 million, and by late 2007 it had been paid more than $750 million. Scahill reports an audit charged that Blackwater included profit in its overhead and its total costs. The result was "not only in a duplication of profit but a pyramiding of profit since in effect Blackwater is applying profit to profit." Scahill writes, "The audit also alleged that the company tried to inflate its profits by representing different Blackwater divisions as wholly separate companies."

“As of summer, 2007, there were more ‘private contractors’ deployed on the U.S. government payroll in Iraq (180,000) than there were actual soldiers (160,000),” Scahill said. “These contractors worked for some 630 companies and drew personnel from more than 100 countries around the globe. …This meant the U.S. military had actually become the junior partner in the coalition that occupies Iraq.” And each Blackwater operative was costing the American taxpayers $1,222 per day. The Defense Department remains, of course, America’s No. 1 Employer, with 2.3 million workers (roughly twice the size of Wal-Mart, which has 1.2 million staffers) perhaps because America’s biggest export is war.

“Who pays Halliburton and Bechtel?” philosopher Noam Chomsky asks rhetorically in his “Imperial Ambitions” (Metropolitan Books). “The U.S. taxpayer,” he answers. “The same taxpayers fund the military-corporate system of weapons manufacturers and technology companies that bombed Iraq. So first you destroy Iraq, then you rebuild it. It’s a transfer of wealth from the general population to narrow sectors of the population.” It’s also been a body blow to Iraq, killing a million inhabitants, forcing two million into exile and millions more out of their homes. Incredibly, the U.S. proposed to reconstruct the nation it invaded with their oil revenues—and then, after taking perhaps $8 billion left the job undone. (Since the U.S. kept no records of how the dough was dispensed, it is not possible to identify the recipients.)

As Stiglitz and Bilmes remind us, “The money spent on Iraq could have been spent on schools, roads, or research. These investments yield high returns.” In an article in the August 24th Nation, policy analyst Georgia Levenson Keohane cites the Center on Budget and Policy Priorities to the effect that 48 states are reporting deficits totaling nearly $166 billion, projected to reach, cumulatively, $350 billion-$370 billion by 2011. “Although many states have attempted tax increases, these are politically challenging and often insufficient to close the gaps. Consequently, statehouses have been forced to cut vital services at a time when the need for them is ever more desperate,” Keohane writes.

In the same issue, reporter Marc Cooper notes the poverty rate in Los Angeles county borders on 20 percent; that California’s schools are ranked 47th nationally; that the state college system has suspended admissions for Spring, 2010; that thousands of state workers are being laid off and/or forced to take furlough days; that unemployment has reached 12 percent; that state parks are being closed; that personal bankruptcies peaked last; that one in four “capsized mortgages in the U.S. is in California.” Plus, California’s bond rating is just above the junk level and it faces a $26 billion budget shortfall.

California’s woes need to be examined in the light of the $116 billion the National Priorities Project of Northampton, Mass., says its taxpayers have shelled out for the wars in Afghanistan and Iraq since 2001. Those same dollars roughly would put four million California students through a four-year college. Bear in mind, too, outlays for those wars are but a fraction of all Pentagon spending, so the total military tax bill is far higher than $116 billion to California.

In calling for a reduction in military spending, Rep. Barney Frank (D.-Mass.) said, “The math is compelling: if we do not make reductions approximating 25 percent of the military budget starting fairly soon, it will be impossible to continue to fund an adequate level of domestic activity even with a repeal of Bush’s tax cuts for the very wealthy….(American] well-being is far more endangered by a proposal for substantial reductions in Medicare, Social Security or other important domestic areas than it would be by canceling weapons systems that have no justification from any threat we are likely to face.” On the other hand, maybe Americans want to keep paying to operate 2,000 domestic and foreign military bases and spend more money on armies and weapons of death than all other nations combined. Maybe they like living in the greatest Warfare State the world has ever known. My hunch, though, is a lot of Americans haven't connected the country's looming bankruptcy with the greedy, gang from the military-industrial complex out to control the planet, its people, and its precious resources.

After the long-suffering civilian population of Iraq, whose "crime" was having oil—a country Steiglitz says that has been rendered virtually unlivable—the big losers are the American taxpayers who are bleeding income, jobs, and quality of life, not just sacrificing family members, on behalf of a runaway war machine. California's plight is being repeated everywhere. A great nation is being looted and millions of its citizens are being pauperized before our eyes. #

Sherwood Ross *is a Miami-based public relations consultant who has worked as a reporter for major dailies, a publicist in the civil rights movement, and as a wire service columnist. Reach him at sherwoodr1@yahoo.com or visit his web site Sherwood Ross Associates.*