

Spying for Dollars: Military Contractors and Security Firms Reap Huge Profits

As the Defense Budget Soars, Billions of Dollars are Channelled Offshore to Avoid Paying Taxes

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The Obama administration is seeking to increase the obscenely bloated U.S. Defense Department budget to a whopping \$708 billion for fiscal year 2011, 3.4% above 2010's record level, [The Wall Street Journal](#) reported.

While the overall budget deficit will balloon to a staggering \$1.6 trillion in 2011, the result of massive tax cuts for the rich, declining revenues, a by-product of capitalism's economic meltdown, imperial adventures abroad and general corporate malfeasance (the old tax-dodge grift), the administration plans to cut \$250 billion over three years from non-military "discretionary spending" on domestic social programs.

However, as the [World Socialist Web Site](#) points out: "President Barack Obama has done nothing to reverse decades of wage stagnation, mounting poverty, and attacks on the social welfare system. On the contrary, following George W. Bush, he has seized on the crisis to redistribute wealth to a tiny financial elite through the ongoing bailout of the finance industry."

It is no small irony that despite stark budget figures and an even bleaker future for the American working class, [Washington Technology](#) reported January 28 that the "29 largest publicly traded defense contractors increased their use of offshore subsidiaries by 26 percent from 2003 to 2008."

Citing reports by the Government Accountability Office (GAO), journalist Alice Lipowicz disclosed that the "subsidiaries helped the contractors reduce taxes, in part by avoiding Social Security and Medicare payroll taxes for U.S. workers hired at the foreign subsidiaries."

Considering that the Pentagon hands out some \$396 billion annually to contractors, outsourcing everything from "in theatre" construction in places like Afghanistan and Iraq to pricey "intelligence analysts" at secret state agencies, cash not spent on payroll taxes by dodgy firms slices another hole into the already-shredded social safety net.

Amongst the largest firms cited in GAO's 2008 [report](#), updated in [January 2010](#), Oracle Corp., operates in 77 tax havens; Boeing Co., 38; Dell Inc., 29; BearingPoint Inc., 28; Computer Sciences Corp., 21; Fluor Corp., 34; General Dynamics, 5; Harris Corp., 13; Hewlett-Packard, 14; Honeywell International, 7; ITT Corp., 18; L-3 Communications, 15; Sprint Nextel, 7.

Many of the firms are heavily-leveraged in the lucrative "homeland security" market and

provide technology and “cleared” intelligence analysts, many of whom jumped ship from government service for richer, if more dubious employment, to a host of secret state agencies including the CIA, DIA, NSA as well as ultra-secretive outfits engaged in global satellite surveillance such as the National Reconnaissance Office (NRO) and the National Geospatial-Intelligence Agency (NGA).

You would think these firms, flush with record profits since the U.S. embarked on its “War on Terror” in 2001, would do something as pedestrian as paying their fair share of taxes or providing benefits to workers, given severe budgetary pressures on domestic programs, dizzying housing foreclosure rates and skyrocketing unemployment.

You’d be wrong, however; dead wrong.

An “Island Paradise” Where Profits Go to Hide

Despite fabulous riches showered on shareholders by taxpayers, the Military-Industrial-Security-Complex will not rest until every dime has been squeezed from the American people, swelling corporate abdomens well-past the bursting point.

In cinematic terms, think of America’s ruling elite as a horde of sociopathic zombies gobbling everything in sight. Instead of screaming “Brains!” as in Sam Raimi’s cult classic, [The Evil Dead](#), corporate zombies cry “Cash! I Need Cash!” as they take down entire nations in one rapacious bite!

A new report published by the Government Accountability Office ([GAO](#)) in January found, “Many of the top 29 U.S. publicly traded defense contractors—those with \$1 billion or more in DOD contracts in fiscal year 2008—have created offshore subsidiaries to facilitate global operations. Between fiscal years 2003 and 2008, they increased their use of these subsidiaries by 26 percent, maintaining at least 1,194 in 2008.”

GAO auditors revealed that corporate subsidiaries in tax havens such as the Bahamas, Switzerland, the Cayman Islands, Bahrain, Netherlands Antilles, Jersey, Bermuda, the Channel Islands, Luxembourg, Macao, Lebanon, Liechtenstein and Cyprus “helped the 29 contractors reduce taxes, with about one-third decreasing their effective U.S. corporate tax rates in 2008 in part through the use of foreign affiliates, lower foreign tax rates, and indefinite reinvestment of foreign income outside of the United States.”

A convenient shell game since the “indefinite reinvestment of foreign income” isn’t taxable until its been repatriated to the United States. What do you think the chances are of that happening any time soon?

As an added incentive that helped firms hit the old corporate “sweet spot,” the congressional watchdogs found that “companies principally used offshore subsidiaries to hire U.S. workers providing services overseas on U.S. government contracts in order to avoid Social Security, Medicare—known as Federal Insurance Contributions Act (FICA)—and other payroll taxes. This practice allowed contractors to offer lower bids when competing for certain services and thereby reduce costs for DOD.”

Not that workers derived any benefit from this “special” arrangement; in fact, the use of offshore tax havens by defense grifters had dire consequences when workers lost their jobs.

“In one state,” GAO auditors revealed, “we reviewed documentation for about 140 former

employees of several contractors who were denied unemployment benefits in 2009. State workforce officials indicated these benefits were denied because the employees worked for a foreign subsidiary and not an American employer.”

Interestingly enough, many of the global hidey-holes used to shield corporate wealth from the IRS have long been identified by law enforcement investigators and political researchers as prime money-laundering venues for the international drugs trade.

This is hardly surprising. Considering the close proximity of U.S. covert operations, illicit arms- and drug trafficking, and general subversive activities carried out by the CIA and other members of the “Intelligence Community,” what better way for defense firms to keep it “all in the family” so to speak, then to stash war-derived loot in discrete locations.

As researcher Alan Block described the metastatic growth of the tax-haven phenomenon in his groundbreaking work, [Masters of Paradise: Organized Crime and the Internal Revenue Service in the Bahamas](#), “professional criminals were those who took it upon themselves to organize crime. Their true work was the process of organizing crime itself.”

Block’s description is all the more appropriate considering that it is the American militarist state that “took it upon themselves” to organize corporate looting on a planetary scale. After all, resource wars, military interventions or the standing-up of death squad states through CIA fomented coups, directly benefit imperialism’s real, indeed only, constituents: U.S. multinational corporations.

Out of Sight, Out of Mind

A futile exercise perhaps, given that our corrupt representatives in Congress, “change” Democrats and troglodytic Republicans alike, will do nothing to close tax loop-holes big enough to sail an aircraft carrier through.

And why would they, since the largest contributors flooding congressional campaign coffers with cold, hard cash are the same firms that reap the benefits of corporate-friendly tax codes, as the [Center for Responsive Politics](#) points out.

Just for kicks, let’s take a look at some of the worst malefactors, firms whose stated mission is to “protect” heimat citizens while inflating the bottom line through the creative use of foreign subsidiaries.

Aside from “taking advantage of foreign government markets for commercial work,” the GAO reports, “a key benefit of using offshore subsidiaries cited by contractors and other experts we spoke with was the ability to reduce overall taxes.”

Indeed, “one defense contractor’s offshore subsidiary structure decreased its effective U.S. tax rate by approximately 1 percent equaling millions of dollars in tax savings,” which of course did nothing to reduce America’s swelling deficit or ameliorate crashing social services for millions of workers.

GAO “identified some defense contractors that used subsidiaries registered outside the place of contract performance to support DOD service contracts abroad. These offshore subsidiaries had no staff or business activity where registered.”

I don't know about you, but I don't think Netherlands Antilles or the Cayman Islands have ever been major manufacturing hubs producing ballistic missiles, spy satellites, supercomputers or other assorted goodies for the National Security State!

Typically however, GAO discovered that for "one contract task order we reviewed, more than 80 percent of the contractor's staff were employed by its offshore subsidiary."

Tellingly, "while five of the six contractors in our case studies said that reducing FICA tax payments was the primary reason for using offshore subsidiaries," the auditors concluded that "this practice also allowed the contractors to reduce costs by avoiding state and federal unemployment insurance taxes for U.S. personnel working overseas."

"For U.S. citizens performing certain work outside the United States," we're informed that "federal law requires only American employers to pay unemployment taxes; foreign subsidiaries are not defined as American employers under the law."

Therefore if a worker is "let go," the enterprising grifter is off the hook for unemployment payments. Pretty neat trick, eh!

Flying the Friendly Skies ... With the CIA!

What do these studies tell us? It pays to have friends in high places! Let's take a peek at just two of the 29 firms profiled in GAO's 2010 report as well as their earlier 2008 [investigation](#).

The Boeing Company ([Boeing](#)): Washington Technology lists [Boeing](#) as No. 2 on their Top 100 list of federal contractors with \$10,838,231,984 in overall revenue.

Primary government contracts include projects for NASA, the Navy, Air Force, Army, Marine Corps, the Department of Homeland Security and the State Department. One subsidiary, and contract, which the giant firm isn't too keen on publicizing is [Jeppesen International Trip Planning](#), the booking agent for CIA torture flights.

As [Antifascist Calling](#) previously reported, the firm is being sued by victims of the Bush administration's illegal practice of "rendering" (kidnapping) so-called "terrorists" into the hands of torture-friendly regimes or to CIA "black sites" in Europe and the Middle East.

The ACLU's landmark litigation on behalf of the victims, [Mohamed et al. v. Jeppesen Dataplan, Inc.](#) seeks to hold the Boeing subsidiary accountable for planning and providing logistical support for CIA "ghost flights." The Obama administration, like their Bushist predecessors oppose the suit on grounds that "vital state secrets" will be disclosed.

On February 10, the British High Court ordered Britain's secret state to release documents disclosing MI5's collaboration in Binyam Mohamed's torture. Mohamed is a litigant in the ACLU's suit against Jeppesen.

[The Guardian](#) reported that "MI5 faced an unprecedented and damaging crisis tonight after one of the country's most senior judges found that the Security Service had failed to respect human rights, deliberately misled parliament, and had a 'culture of suppression' that undermined government assurances about its conduct."

In response to the release of previously classified [documents](#) by the British government, as promised, the U.S. Government has threatened that the disclosure "would cloud future

intelligence relations with Britain,” [The Wall Street Journal](#) reported.

Meanwhile back in the heimat, Boeing and Jeppesen’s corporate officers continue to hold get-out-of-jail-free cards from the Obama administration.

As investigative journalist Jane Mayer revealed in [The New Yorker](#) back in 2006, Bob Overby, the managing director of Jeppesen International Trip Planning, said during a breakfast for new hires in San Jose, Calif., “We do all of the extraordinary rendition flights—you know, the torture flights. Let’s face it, some of these flights end up that way.”

Technical writer Sean Belcher blew the whistle on the firm and told Mayer that Overby, extemporaneously extolling the virtues for the corporatist bottom line, said: “It certainly pays well. They”—the CIA—“spare no expense. They have absolutely no worry about cost. What they have to get done, they get done.”

But facilitating CIA torture flights wasn’t the only, or even the most lucrative, enterprise driving Boeing’s close collaboration with the National Security State.

Little known outside the security industry, Boeing’s Defense, Space and Security division ([DSS](#), formerly Integrated Defense Systems or IDS) is the firm’s intelligence unit.

With some 71,000 employees, most holding top secret clearances, DSS is probably the most profitable of the firm’s divisions with some \$32 billion in revenues, about half of Boeing’s annual earnings.

According to investigative journalist and security analyst Tim Shorrock, writing on CorpWatch’s [Spies for Hire](#) collaborative research web site, DSS “has close ties with the NSA and the intelligence community’s signals intelligence units. It has an important office about a mile from the agency’s headquarters in Fort Meade, Maryland, in an industrial park filled with NSA contractors.”

And within DSS, its most important intelligence unit is the [Advanced Global Services & Support](#) division.

According to Boeing, Advanced Global Services & Support “is the advanced arm of the Global Services & Support business unit ... responsible for driving the development, growth and transition of innovative, knowledge-based logistics capabilities for Global Services & Support. With a central focus on the emerging network-centric logistics marketplace, Advanced Global Services & Support is working on deploying integrated solutions for end-to-end (factory-to-foxhole) logistics. Its focus-‘readiness transformation’.”

The unit provides “horizontal integration” for “Intelligence Community customers” such as the National Geospatial-Intelligence Agency (NGA), the Central Intelligence Agency (CIA), the Defense Intelligence Agency (DIA) and the National Security Agency (NSA).

“In December 2007” Shorrock writes, “Boeing formed a new Intelligence and Security Systems (I&SS) division that appears to combine many of the company’s services for foreign and domestic intelligence. Based in Washington, D.C., I&SS has a workforce of about 2,000 people at nine locations nationwide, and includes four program areas: Advanced Information Systems; Mission Systems; Security Solutions, which includes SBInet (the electronic wall being built on the US-Mexico border); and Advanced I&SS. According to a company press release, the new division ‘enables increased focus on the complex challenges faced by our

homeland security and intelligence community customers. ...I&SS will improve our ability to bring comprehensive, net-enabled capabilities to meet our customers' dynamic requirements'."

Much the same can be said of Boeing's imaginative use of tax-havens. According to GAO's 2008 study, Boeing maintained 38 foreign subsidiaries in major airline manufacturing hubs such as Bermuda (6); Cayman Islands (1); Gibraltar (2); Hong Kong (4); Ireland (4) Netherlands Antilles (2); Singapore (3); and U.S. Virgin Islands (16).

Spying for Dollars

Computer Sciences Corporation ([CSC](#)): One of the largest defense contractors operating under the radar, [CSC](#) is No. 9 on Washington Technology's Top 100 list of prime federal contractors with some \$3,435,767,906 in revenue.

The Falls Church, Virginia-based outfit's business includes consulting, systems integration and outsourcing, and their major customers include the Defense Department, NASA, Navy, Army, Air Force, Treasury Department, Health and Human Services, the Environmental Protection Agency, Transportation Department and Department of State.

In his essential book [Spies for Hire](#), Shorrock has described CSC as "one of the NSA's most important contractors," managing "global information networks and produces and disseminates intelligence products, including specialized expertise in the area of imagery processing and archiving."

"After 9/11" Shorrock writes, "CSC formed a new business unit to go after homeland security and intelligence work," including contracts with the Defense Intelligence Agency.

Shorrock reveals that one of the "mission critical" consortiums that run DIA global operations "is managed by Computer Sciences Corporation (CSC). ... The CSC team includes CACI International and [L-3 MPRI](#). This last company is one of the largest private armies in the world, and would have at its disposal hundreds of paramilitary officers who would fit in exceedingly well with the DIA's secret intelligence teams in the Middle East and North Africa."

According to the firm's [web site](#), CSC's Intelligence Analysis and Operational Support division "applies advanced information technology, expert knowledge, best practices, and business process improvement in all phases of the intelligence cycle (planning and direction, collection, processing, analysis and production, and dissemination)."

"At the enterprise level," CSC informs us, "our prowess in systems integration, engineering, and consulting help create IT infrastructures and ways of doing business that put the right tools in the right hands at the right time, so that intelligence staffs and decision makers can get on with the business of protecting the country."

With no end in sight, the data-mining growth curve continues along its merry way, integrating and analyzing the electronic communications of Americans "captured" by CIA, DIA, FBI, NCTC and NSA data miners and their partners in the telecommunications industry.

Accordingly, CSC "develops and integrates automated tools for unique requirements of specialized intelligence analysts." Tools that enable secret state agencies to "Capture and mine information from multiple sources in multiple languages; Collaborate in real time with

fellow analysts; Create models in which to store working data and test hypotheses; Discover insider threats by tracking network behavior; Automatically analyze and visualize complex data using intelligent software agents.”

As with hundreds of other firms who trade top secret security clearances as if they were trading cards, CSC provides “experienced, cleared intelligence professionals who perform intelligence analysis, database construction and population, editorial support and quality assurance, production and collection management, analytic tradecraft training, on-the-ground acquisition of unique data sets, and foreign language support.”

Conveniently, CSC has some 1,200 employees who they rent to the secret state at a premium price “who meet DCID 6/4 eligibility requirements and have access to Sensitive Compartmented Information (SCI) or Special Access Programs (SAPs),” i.e., Pentagon, CIA and NSA “black programs” only known by code words that escape congressional scrutiny, or indeed any democratic oversight.

The firm’s “Information Refinery” is touted as an “innovative approach to open source intelligence that captures multilingual information from the Internet and other publicly available sources, then mines, refines and translates it for use by government intelligence analysts and decision makers.”

Translation: CSC, on behalf of secret state “stakeholders” surveil web pages, blog posts and other electronic communications and “assist” spooks in transforming data, including First Amendment-protected free speech into grist for the “actionable intelligence” mill.

One would think a red-blooded, patriotic American firm like CSC would do their all for “God and Country,” and pay their fair share of taxes, considering the billions of dollars in contracts the firm has speared from the government. Think again, chumps!

GAO reports that CSC has 21 subsidiaries “in jurisdictions listed as tax havens” by the federal government. Some of the firm’s global operations are located in tech manufacturing powerhouses such as Bermuda (1); British Virgin Islands (4); Costa Rica (1); Hong Kong (5); Ireland (2); Luxembourg (2); Macao (1); Singapore (4); Switzerland (1).

Despite the fact that “DOD officials were aware of the roles offshore subsidiaries played in the DOD contracts we reviewed,” GAO investigators found that “contracting officials stated that the use of offshore subsidiaries did not negatively impact contract schedule or performance.”

After all, \$708 billion does a lot of talking!

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