
More Bucks for the Bang

CEO Pay at Top Defense Contractors



“I don't want to see a single war millionaire created in the United States as a result of this world disaster.”

— President Franklin D. Roosevelt



“In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex.”

— President Dwight D. Eisenhower, 1961



“Most of the guys are former military, and you make a lot of money.”

— L-3 Communications Executive Gen. Jay Garner (ret.), 2003

Chris Hartman and David Martin
Research by Ben Robinson

April 28, 2003



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United for a Fair Economy is a national, independent, non-partisan organization founded in 1995. UFE raises awareness that concentrated wealth and power undermine the economy, deepen the racial divide, and tear communities apart. We support and help build movements for greater equality.

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April 28, 2003

Key Findings

Defense Contractor CEO pay rose sharply in 2002.

Median CEO pay at the 37 largest publicly-traded defense contractors rose 79 percent from 2001 to 2002, while overall CEO pay climbed only six percent.

Defense Contractor CEO pay is significantly higher than median CEO pay.

Median CEO pay was 45 percent higher in 2002 at defense contractors than at the 365 large companies surveyed by *Business Week* magazine. The typical U.S. CEO made \$3.7 million in 2002, while the typical defense industry CEO got \$5.4 million.

The increase in CEO pay cannot be solely attributed to the rise in defense spending.

The 79 percent jump in median defense contractor CEO pay in 2002 far exceeded the increase in defense spending, which rose 14 percent in 2002.

Defense Industry CEOs are paid far more than the people actually doing the fighting.

Compared with the annual pay of an army private in Iraq, \$19,585 in 2002 dollars, the average CEO at a major defense contractor made 577 times as much in 2002, or \$11,297,548. This is also 28 times as much as the Commander in Chief's 2002 salary of \$400,000.

Campaign contributions strongly correlate with defense contracts.

There is a strong statistical correlation between campaign contributions made by a company in the 2000 and 2002 election cycles and the value of defense contracts awarded to that company. We studied the public and private defense contractors that had at least \$1 billion in defense contracts in 2000-2002 for which at least 10 percent of their total revenues were accounted for by sales to the Department of Defense (DoD). Among the resulting field of 24 companies, 90 percent of the difference in size of DoD contracts can be accounted for by the amount of political campaign contributions made by the companies.



“I don’t want to see a single war millionaire created in the United States as a result of this world disaster.”

— President Franklin D. Roosevelt, 1940¹



“In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex.”

— President Dwight D. Eisenhower
Farewell Address, January 17, 1961²



“Most of the guys are former military, and you make a lot of money.”

— Lt. Gen. Jay Garner (ret.),
director of the interim civil authority in Iraq,
commenting on his job as an executive at
defense contractor L-3 Communications,
April, 2003.³

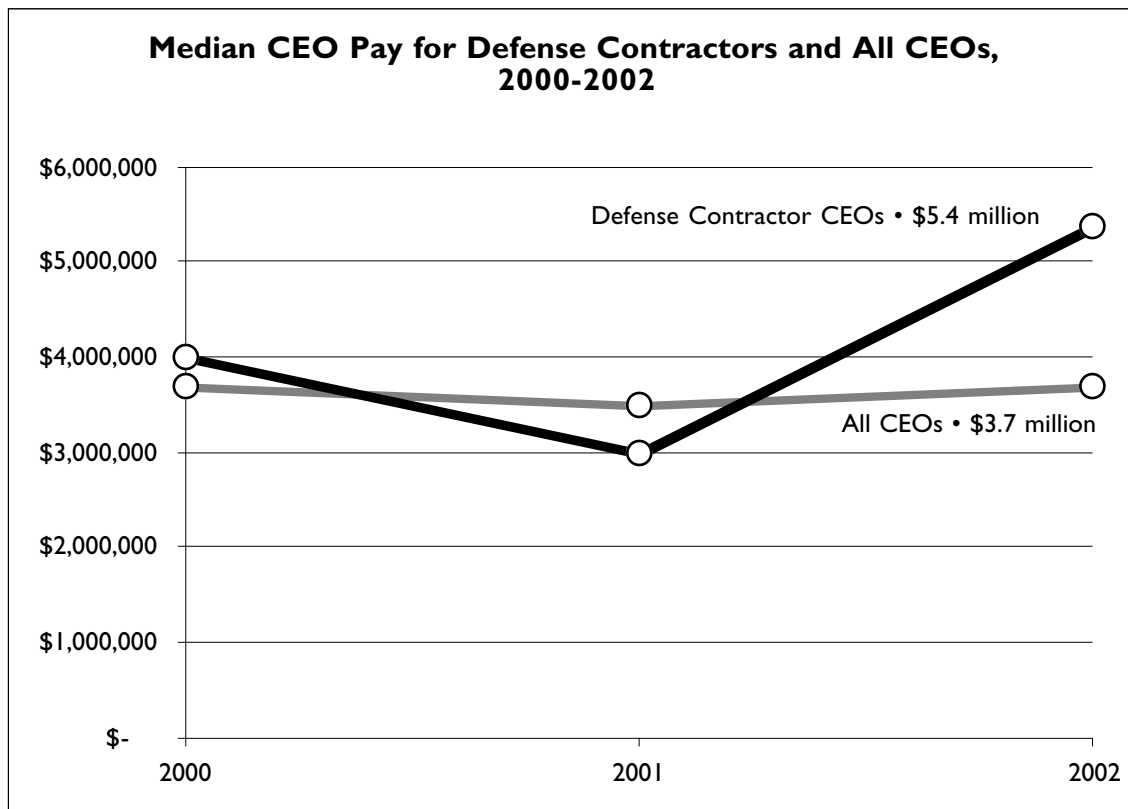
More Bucks for the Bang

CEOs in the defense industry are flourishing.

At a time when most American industries are struggling and CEO pay overall is actually stagnating, CEOs in the defense industry are flourishing.

In 2002, median pay for defense contractor CEOs increased by 79 percent, while overall CEO pay inched up by only 6 percent.

In 2000 and 2001, CEOs of defense contractors were paid roughly the same as their counterparts in other industries. But in 2002, CEOs in the defense industry parted ways with their colleagues. The typical CEO for a defense contractor made \$5.4 million in total compensation, 45 percent more than the median American CEO, who earned \$3.7 million, according to *Business Week*.



Source: "Executive Pay," *Business Week*, April 16, 2001, April 15, 2002, and April 21, 2003; company proxy statements.

CEO Pay at the Top Publicly-Traded Defense Contractors, 2000-02

Company	CEO	2000	Total CEO Compensation in thousands 2001	2002	Total 2000-02	Percent Change 2000-01	2001-02	Total 2000-02 DoD Contracts in billions	Key Product / Service
1. Lockheed Martin ^{a,b}	Vance D. Coffman	\$5,841	\$16,556	\$25,337	\$47,734	183%	53%	\$47.156	F-16, F/A-22 jet fighters, C-130J air transport, Hellfire, Javelin missiles
2. Boeing ^c	Philip M. Condit	\$19,720	\$3,929	\$4,145	\$27,794	-80%	5%	\$42.721	F-15 fighter, C-17 air transport, Apache Helicopter, JDAM "smart" bombs
3. Raytheon ^d	Daniel P. Burnham	\$8,081	\$2,588	\$8,922	\$19,591	-68%	245%	\$19.581	Patriot, Tomahawk, "Bunker Buster" bomb
4. Northrop Grumman ^b	Kent Kresa	\$7,353	\$7,352	\$9,222	\$23,927	0%	25%	\$17.618	B-2 stealth bomber, amphibious assault ships
5. General Dynamics ^e	Nicholas D. Chabraja	\$10,403	\$5,719	\$15,245	\$31,367	-45%	167%	\$16.824	Abrams M1 tank, Trident submarine
6. United Technologies ^f	George David	\$18,835	\$22,636	\$9,664	\$51,135	20%	-57%	\$9.839	Black Hawk, Sea Hawk, Comanche helicopters
7. Newport News Shipbuilding ^g	William P. Fricks	\$5,641	NA	NA	NA	NA	NA	\$6.679	Aircraft carriers, Seawolf submarine
8. TRW ^h	J. T. Gorman 2000 David M. Cote 2001	\$4,685	\$10,784	NA	NA	130%	NA	\$5.934	Aircraft engines and engine parts
9. Science Applications International	J.R. Beyster	\$1,727	\$1,873	\$6,994	\$10,593	8%	273%	\$5.344	Telecommunications, systems integration, engineering, research and development
10. General Electric	John F. Welch, Jr. 2000-01 Jeffrey R. Immelt 2002	\$122,582	\$16,247	\$15,118	\$153,947	-87%	-7%	\$4.915	Aircraft engines, nuclear reactors
11. Carlyle Group / United Defense Industries ^b	Thomas W. Rabaut	\$794	\$2,812	2,723	6,329	254%	-3%	\$3.382	Bradley Fighting Vehicle, Mk 45 Gun System, Mk 41 Vertical Launch System, Crusader Artillery Cannon, Advanced Gun System
12. Health Net	Jay M. Gellert	\$665	\$757	\$1,521	\$2,943	14%	101%	\$3.181	Health care
13. Honeywell ⁱ	Michael R. Bonsignore 2000-01 Lawrence A. Bossidy 2001-02 David M. Cote 2002	\$12,921	\$25,530	\$44,964	\$83,415	98%	76%	\$3.131	Aircraft engines and systems, aerospace electronics, landing gear components
14. DynCorp ^j	Paul V. Lombardi	\$1,275	\$1,780	NA	NA	40%	NA	\$3.039	Security, technology
15. Computer Sciences Corp.	Van B. Honeycutt	\$2,304	\$2,146	\$4,186	\$8,636	-7%	95%	\$2.791	Computer and business process outsourcing
16. Litton Industries ^k	Michael R. Brown	\$1,421	NA	NA	NA	NA	NA	\$2.737	Electronics, shipbuilding, information systems
17. Textron	L.B. Campbell	\$4,573	\$7,632	\$4,684	\$16,889	67%	-39%	\$2.644	Osprey tilt-rotor aircraft, Huey helicopter
18. L-3 Communications	Frank C. Lanza	\$1,257	\$1,511	\$1,675	\$4,443	20%	11%	\$2.533	Satellite, avionics, missile defense, marine communications
19. IIT Industries	Travis Engen 2000 Louis J. Giuliano 2001-02	\$7,563	\$2,992	\$12,526	\$23,081	-60%	319%	\$2.045	Combat radios, night-vision devices, airborne electronic-warfare systems
20. Humana	Michael B. McCallister	\$2,651	\$1,530	\$1,372	\$5,553	-42%	-10%	\$1.827	Health care
21. Alliant Techsystems	Paul David Miller	\$1,425	\$2,902	\$10,538	\$14,865	104%	263%	\$1.638	Rifle ammunition, cluster bombs, GPS bombs
22. Morrison Knudsen / Washington Group Int'l. ^l	Stephen G. Hanks	\$633	\$1,037	\$2,085	\$3,755	64%	101%	\$1.564	Heavy construction and engineering
23. Oshkosh Truck Corp.	Robert G. Bohn	\$1,320	\$896	\$8,736	\$10,953	-32%	875%	\$1.532	Heavy-payload tactical trucks
24. Halliburton	Richard B. Cheney 2000 David J. Lesar 2001-02	\$24,222	\$6,682	\$7,302	\$38,206	-72%	9%	\$1.506	Oil field services, construction (including Camp X-ray in Guantanamo Bay), maintenance
25. Exxon Mobil	L. R. Raymond	\$41,468	\$30,779	\$42,194	\$114,442	-26%	37%	\$1.438	Oil and gas
26. Stewart & Stevenson Services	Michael L. Grimes	\$486	\$638	NA	NA	31%	NA	\$1.323	Troop carriers, dump trucks
27. Jacobs Engineering Group	Noel G. Watson	\$2,391	\$6,093	\$6,032	\$14,516	155%	-1%	\$1.282	Construction, engineering
28. Rockwell International / Rockwell Collins ^{m,n}	Don H. Davis, Jr. 2000 Clayton M. Jones 2001-02	\$2,230	\$783	\$1,161	\$4,175	-65%	48%	\$1.267	Aviation electronics and communications equipment
29. IT Group / Shaw Group ^o	Anthony J. DeLuca 2000 J.M. Bernhard 2001-02	\$1,821	\$2,942	\$1,953	\$6,716	62%	-34%	\$1.258	Engineering and construction
30. Titan Corp.	Gene W. Ray	\$1,807	\$7,354	\$788	\$9,949	307%	-89%	\$1.160	Computer and communication systems, network security, systems engineering
31. URS Corp.	Martin M. Koffel	\$3,981	\$4,534	\$2,631	\$11,145	14%	-42%	\$1.110	Planning, design, construction management
32. Dell Computer	Michael S. Dell	\$235,804	\$201,260	\$82,271	\$519,335	-15%	-59%	\$1.109	Computer hardware
33. Cardinal Health	Robert D. Walter	\$4,831	\$2,937	\$17,740	\$25,508	-39%	504%	\$1.066	Pharmaceuticals and medical supplies
34. FedEx	Frederick W. Smith	\$4,273	\$2,309	\$2,753	\$9,335	-46%	19%	\$1.049	Shipping
35. Harris Corp.	Phillip W. Farmer	\$2,347	\$1,824	\$2,181	\$6,352	-22%	20%	\$1.027	Microwave, satellite, radio, digital, and wireless communications equipment and systems
36. Electronic Data Systems	Richard H. Brown	\$5,379	\$37,287	\$1,500	\$44,165	593%	-96%	\$1.021	Systems integration, network and systems operations, data management services
37. Motorola	Christopher B. Galvin	\$2,531	\$4,012	\$3,357	\$9,901	59%	-16%	\$1.002	Wireless and radio communications equipment, network switching systems
Defense Contractor Median		\$3,981	\$2,992	\$5,358		-25%	79%		
Business Week Median		\$3,730	\$3,490	\$3,700		-6%	6%		
Difference		7%	-14%	45%					

a. Includes 40% of the value of contracts let to Raytheon Lockheed Martin / Javelin Joint Venture, a joint venture in which Lockheed Martin held a 40% interest.

b. Includes 50% of the value of contracts let to Longbow LLC, a joint venture in which Lockheed Martin and Northrop Grumman each held a 50% interest.

c. Includes 50% of the value of contracts let to Boeing Sikorsky Comanche Team, a joint venture in which Boeing and United Technologies each held a 50% interest.

d. Includes 60% of the value of contracts let to Raytheon Lockheed Martin / Javelin Joint Venture, a joint venture in which Raytheon holds a 60% interest.

e. Includes 50% of the value of contracts let to GM GDLS Defense Group LLC, a joint venture in which General Dynamics held a 50% interest.

f. Newport News Shipbuilding was acquired by Northrop Grumman in 2001.

g. TRW was acquired by Northrop Grumman in 2002.

h. Until it went public in December 2001, United Defense Industries was owned by the Carlyle Group.

i. 2001 CEO Pay is the sum of total compensation for Michael R. Bonsignore, who was CEO until Feb. 1, and Lawrence A. Bossidy, who was CEO for the balance of 2001. 2002 CEO Pay is the sum of total compensation for Bossidy and David M. Cote, who replaced Bossidy as CEO on Feb. 19, 2002.

j. Dyncorp was acquired by Computer Sciences Corporation in March, 2003. Dyncorp CEO pay data for 2002 is not available.

k. Litton Industries was acquired by Northrop Grumman in 2001.

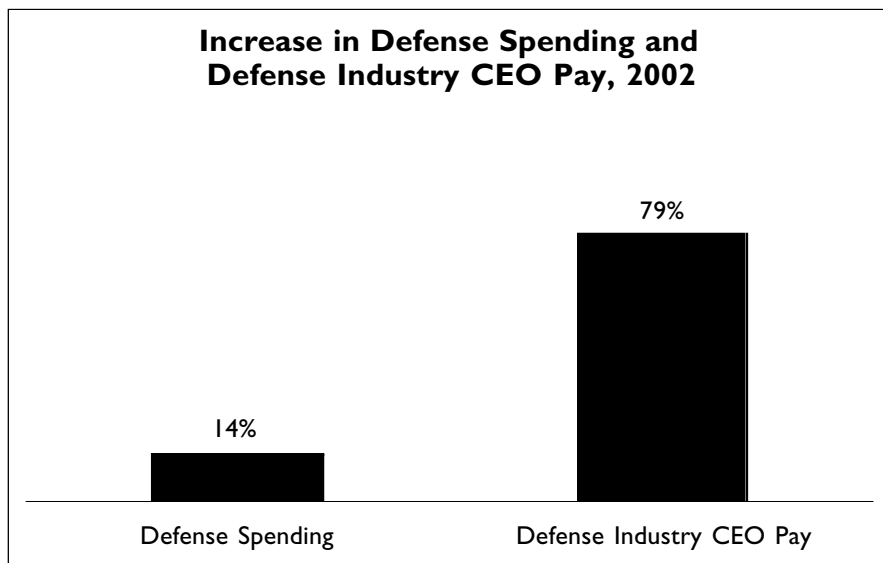
l. Morrison Knudsen changed its name to Washington Group International in 2001.

m. Rockwell International spun off Rockwell Collins in 2001.

n. Includes 50% of the value of contracts let to BAE Systems / Rockwell Collins, a joint venture in which Rockwell Collins held a 50% interest.

o. IT Group was acquired by Shaw Group in 2002.

Sources: "Executive Pay," *Business Week*, April 16, 2001, April 15, 2002, and April 21, 2003; corporate filings with the Securities and Exchange Commission; Department of Defense; Hoover's Inc. We used *Business Week's* method of calculating total compensation, which includes salary, bonus, "other compensation," restricted stock awards, long-term incentive payouts, and the value realized from the exercise of stock options.



All told, the top 37 defense contractors have taken home more than \$1.35 billion in total compensation since 2000.

Source: Congressional Budget Office, “Executive Pay,” *Business Week*, April 16, 2001, April 15, 2002, and April 21, 2003; company proxy statements.

The sharp increase in defense industry CEO pay in 2002 cannot be solely attributed to a larger defense budget. From 2001 to 2002, defense spending rose 14 percent, but median CEO pay in the defense industry grew more than five times as fast, rising 79 percent. All told, the top 37 defense contractors have taken home more than \$1.35 billion in total compensation since 2000.

Methodology

To measure CEO pay in the defense industry, we examined the 37 publicly-traded American corporations with at least \$1 billion in total defense contracts from 2000 through 2002. The list includes well-known defense contractors like Lockheed Martin, Boeing, Raytheon, Northrop Grumman, and General Dynamics, as well as some companies not usually associated with military spending, such as FedEx, and Dell Computer, and Humana.

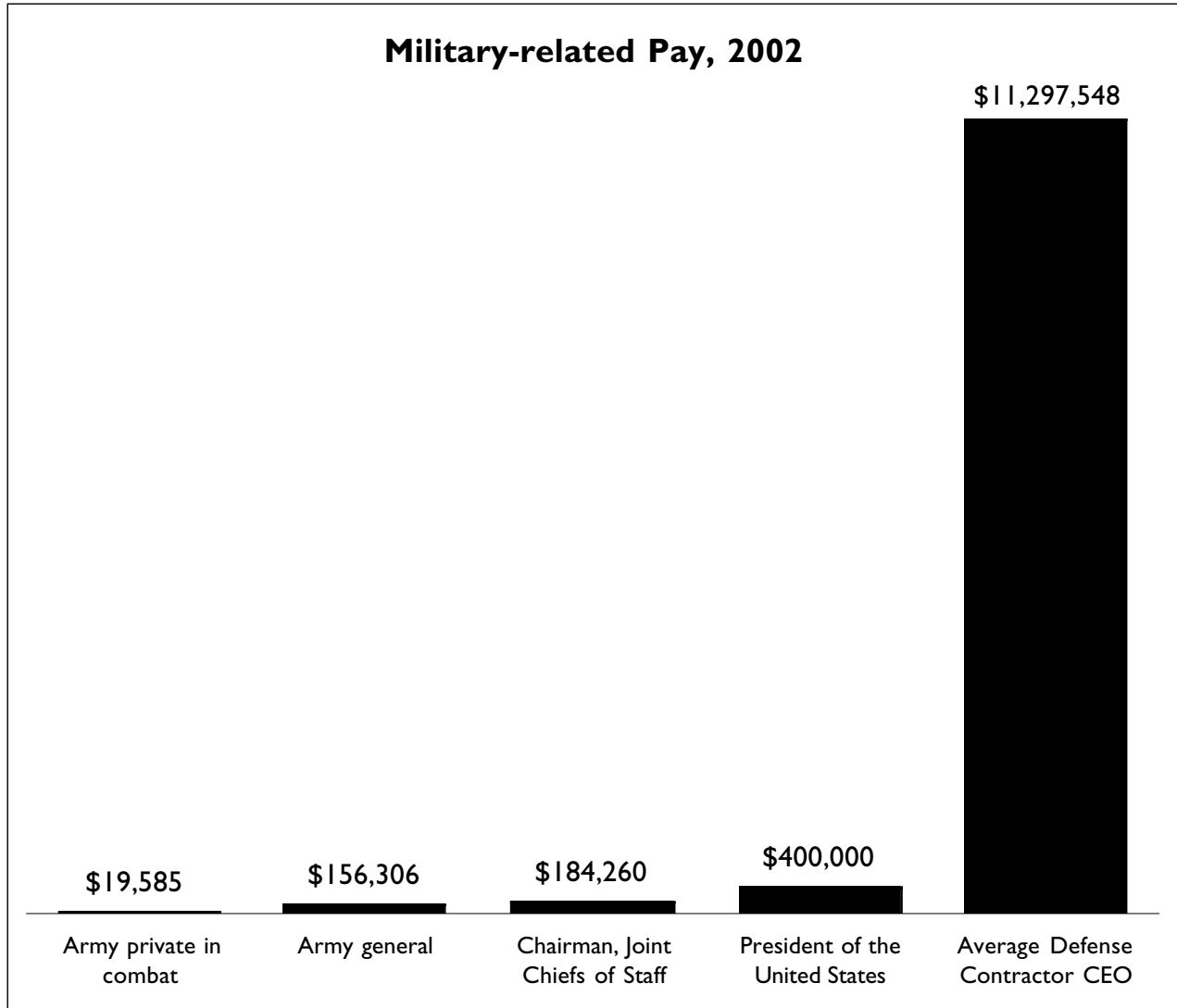
For the purposes of this study, we followed *Business Week’s* method of calculating total compensation, which includes salary, bonus, “other compensation,” restricted stock awards, long-term incentive payouts, and the value realized from the exercise of stock options.

Defense Contractor CEOs are by far the best-paid workers in U.S. anti-terrorism efforts.

Soldiers and Fortunes

Based on 2002 pay scales, the Army private on the ground in Iraq earned about \$19,600 a year, including extra combat pay. Meanwhile, the average defense industry CEO in 2002 made \$11.3 million — 577 times as much.

In 2002, Vance Coffman, CEO of top defense contractor Lockheed Martin, took home \$25.3 million in total compensation. It would take an Army private in a combat zone 1,293 years to earn that much money.



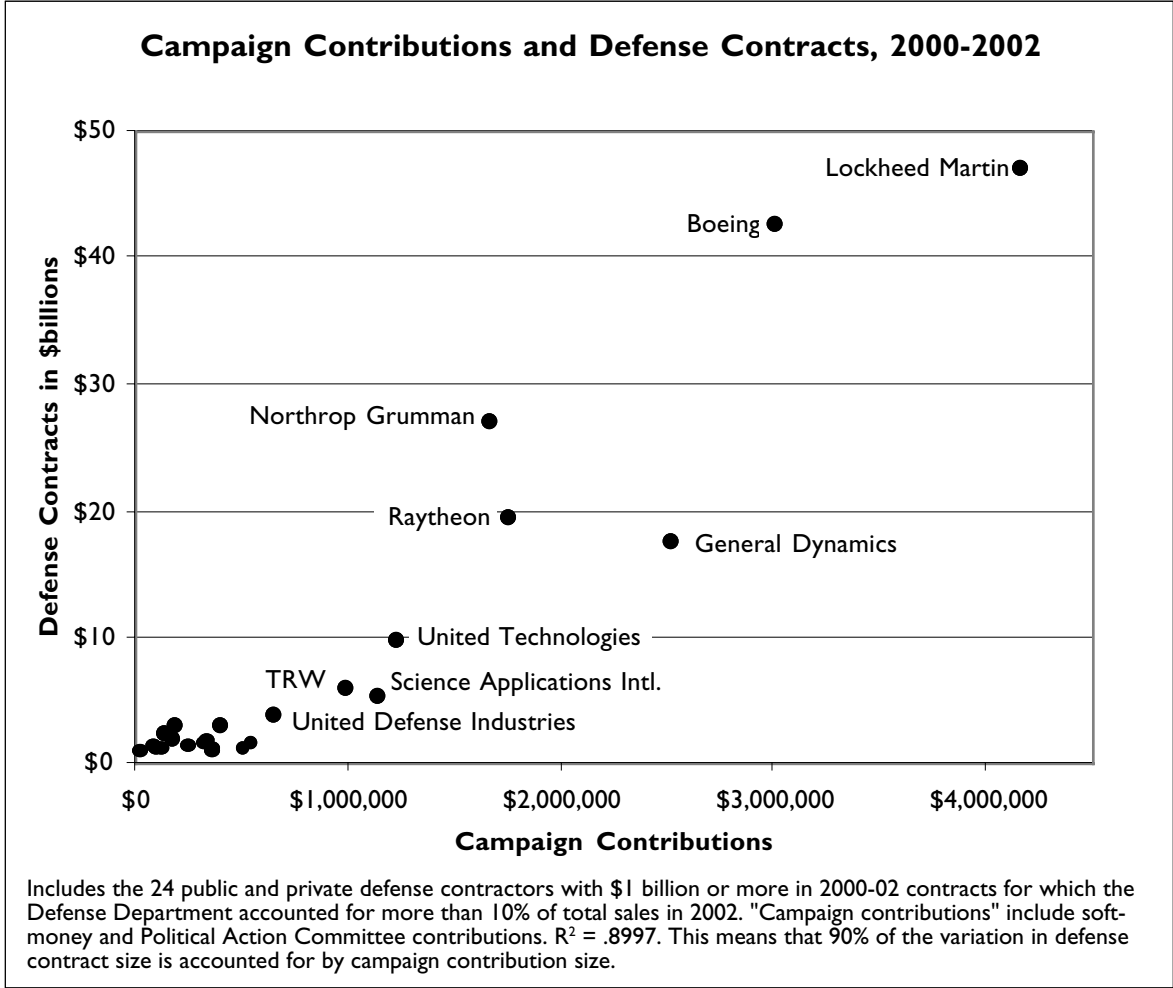
Source: Department of Defense, Defense Finance and Accounting Service, 2002 Military Pay Rates. Army private: \$1,239.30 per month for the E-2 pay grade, plus \$242.81 monthly subsistence allowance and \$150 monthly Imminent Danger / Hostile Fire pay. General: \$11,601.90 monthly plus \$1256.40 housing allowance and \$167.20 monthly subsistence allowance for O-10 pay grade with 20 years of service. Chairman, Joint Chiefs of Staff: \$13,598.10 monthly plus plus \$1256.40 monthly housing allowance, \$333.33 monthly “personal money allowance,” and \$167.20 monthly subsistence allowance.

Eisenhower's Warning

As with all industries that depend on government spending, weapons makers invest heavily in campaign contributions to elected officials. We looked at public and private defense contractors with at least \$1 billion in defense contracts in 2000-2002, limiting our study to those which had at least 10 percent of their total sales to the Defense Department (DoD). Among the resulting sample of 24 companies, we found a strong correlation between campaign contributions and defense contracts.

There is a strong correlation between campaign contributions and defense contracts.

Specifically, we found that 90 percent of the variation in the size of defense contracts could be accounted for by the size of campaign contributions donated by the company.



Source: Department of Defense, Center for Responsive Politics.

**General Douglas
McArthur once said,
“Old soldiers never die,
they just fade away.”
Today, the phrase
should be, “Old soldiers
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work for defense
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Campaign Contributions and Defense Contracts, 2000-2002

For companies with more than \$1 billion in 2000-2002 defense contracts
and more than 10% of 2002 revenues accounted for by sales to the Department of Defense

Company	% of Total 2002 Sales to DoD	2000-02 Contracts \$billions	2000-02 Campaign Contributions*
Lockheed Martin ^{a,b}	64%	\$47.156	\$4,165,682
Boeing ^c	31%	\$42.721	\$3,019,725
General Dynamics ^d	43%	\$17.583	\$2,521,115
Raytheon ^e	37%	\$19.537	\$1,755,432
Northrop Grumman ^{b,f}	33%	\$24.264	\$1,668,550
United Technologies ^c	14%	\$9.840	\$1,228,400
Science Applications International TRW	34%	\$5.344	\$1,140,000
	13%	\$5.934	\$991,539
Carlyle Group / United Defense Industries ^g	88%	\$3.941	\$657,185
Morrison Knudsen / Washington Group International ^h	13%	\$1.564	\$540,481
Jacobs Engineering	11%	\$1.282	\$506,910
Health Net	17%	\$3.181	\$401,352
Stewart & Stevenson Services	37%	\$1.323	\$364,167
Harris Corp.	20%	\$1.027	\$362,839
Humana	12%	\$1.828	\$327,643
Alliant Techsystems	37%	\$1.638	\$320,060
Oshkosh Truck Corp.	34%	\$1.532	\$241,850
DynCorp	58%	\$3.039	\$182,525
ITT Industries	14%	\$2.045	\$167,658
L-3 Communications	41%	\$2.533	\$133,250
Rockwell International ⁱ / Rockwell Collins ^j	15%	\$1.271	\$124,873
Titan Corp.	36%	\$1.160	\$103,500
Booz Allen & Hamilton	33%	\$1.543	\$86,500
URS Corp.	33%	\$1.110	\$27,000

* Includes soft-money and Political Action Committee (PAC) contributions.

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b. Includes 50% of the value of contracts let to Longbow LLC, a joint venture in which Lockheed Martin and Northrop Grumman each held a 50% interest.

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f. Includes campaign contributions and contracts for Litton Industries and Newport News Shipbuilding, which were acquired by Northrop Grumman in 2001 and 2002, respectively.

g. Until it went public in December 2001, United Defense Industries was owned by the Carlyle Group.

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i. Rockwell International spun off Rockwell Collins in 2001.

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Source: Department of Defense; Center for Responsive Politics; Hoovers, Inc.; company annual and quarterly reports.

In other words, campaign contributions appear to work, and the payoff can be huge. For example, top weapons maker Lockheed Martin was also the top campaign contributor among defense firms from 2000 to 2002. The company made over \$4 million in soft-money and Political Action Committee contributions in the 2000 and 2002 election cycles, a tidy sum but small potatoes compared to the \$47 billion in Lockheed Martin's total defense contracts from 2000 to 2002.

In his farewell address, President Dwight Eisenhower warned the nation about a nascent "military-industrial complex" where military spending is driven not by national security needs, but instead by an insular and self-perpetuating network of weapons makers, lobbyists, elected officials, and military officers — none of whom has any incentive to scrutinize new weapons systems for their cost-effectiveness. The defense contractors' main customer is the government, and so lobbying of elected officials to boost military spending to approve new weapons systems is Job Number One. In effect, lobbyists are part of the defense contractors' sales force.

Lobbying relies on opening doors to government officials, and one thing that a retired general or admiral can do is open them. This political influence is subtle, but effective. General Douglas MacArthur once said, "Old soldiers never die, they just fade away." Today, the phrase should be, "Old soldiers never die, they just work for defense contractors." In a revolving door process that has become endemic to Washington, retired generals and admirals routinely work for weapons makers as board members, consultants, and lobbyists, providing coveted access to military appropriators in Congress and procurement officers in the Pentagon.

The ties between corporations bidding on Iraq reconstruction work and government officials have attracted Congressional scrutiny. After learning of the non-competitive contract to fight oil-well fires that was awarded to Vice President Richard Cheney's old company Halliburton, Representatives Henry Waxman, (D-CA) and Rep. John Dingell, (D-MI) asked for a General Accounting Office (GAO) investigation into how the Bush administration is awarding contracts for the reconstruction of Iraq.⁶ After USAID awarded Bechtel a \$680 million contract in an invitation-only bidding process (see box), the GAO announced a broad investigation into the reconstruction contract bidding process.⁷

The ties between corporations bidding on Iraq reconstruction work and government officials have attracted Congressional scrutiny.

Bechtel: First in Campaign Contributions, First in Iraq

The correlation between campaign contributions and government contracts was underlined on April 17, 2003, when the U.S. Agency for International Development (USAID) awarded Bechtel Corp. a \$680 million contract for the reconstruction of Iraq.⁴ This contract puts Bechtel in "pole position" for future reconstruction contracts.

According to the nonpartisan Center for Responsive Politics, between 1999 and 2002, Bechtel donated \$1.3 million in campaign contributions, 59 percent to Republicans. That made Bechtel the largest campaign contributor of the six construction and engineering firms invited to bid on the reconstruction contract. Overall, the six construction and engineering firms invited to bid on the contract gave a combined \$3.6 million between 1999 and 2002, 66 percent to Republicans.⁵

Bechtel has long enjoyed excellent connections to government policymakers. Former CEO George Schultz went on to become Secretary of State in the Reagan administration and now sits on the company's board. And Jack Sheehan, a senior vice president at Bechtel, is a member of the Defense Policy Board, a government-appointed group that advises the Pentagon on foreign and military policy.

The surge in military spending provides a huge boost to military contractors.

More for Guns, Less for Butter

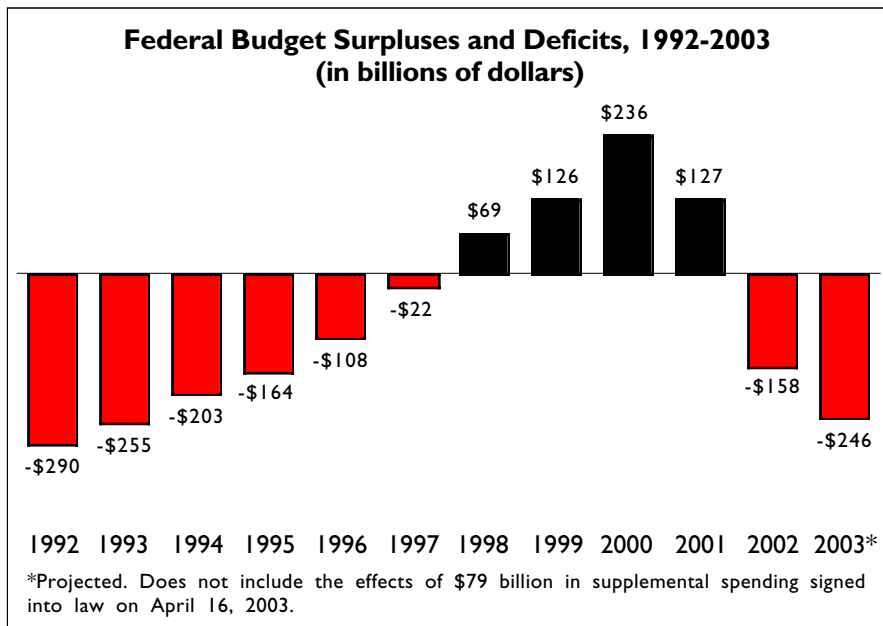
During the 1990s, the decline in defense spending was one of the two major reasons — the other was tax hikes on the wealthy — that the federal budget deficits were turned into surpluses late in the decade.

In 1986, defense spending accounted for 6.2 percent of U.S. Gross Domestic Product (GDP). By 2001, that share had been cut in half, to 3.0 percent of

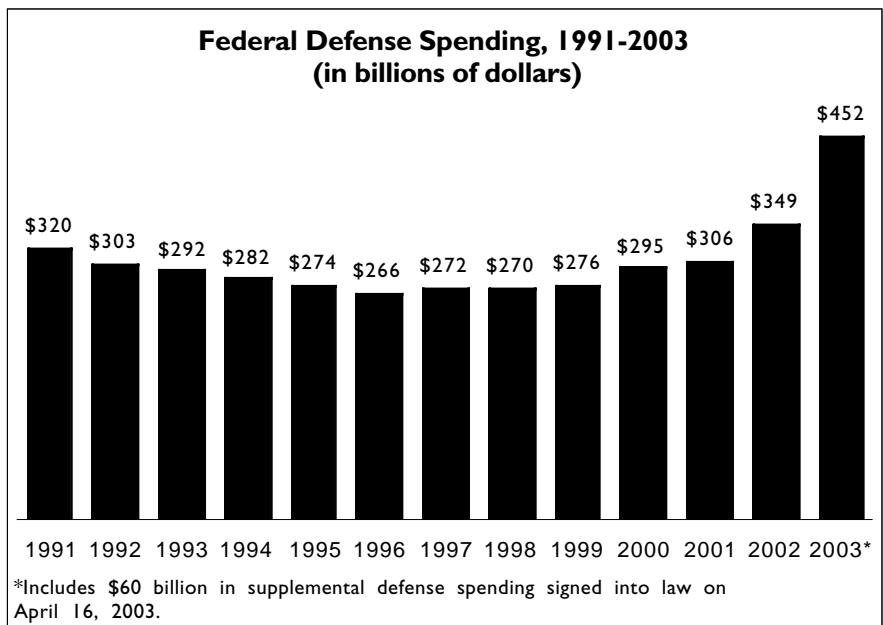
GDP. Combined with the tax hikes on the wealthy in 1990 and 1993 and the resulting reduction in interest payments, cuts in defense spending helped turned a deficit equivalent to 5.0 percent of GDP in 1986 to a surplus of 2.7 percent of GDP in 2001.

However, since taking control of fiscal policy in 2001, the Bush administration has systematically reversed that approach. In 2001, President Bush signed a \$1.35 trillion tax cut directed disproportionately to the wealthy, and at least another \$350 billion in tax cuts, also skewed heavily toward the top, may be on the way.

As for defense spending, following September 11, 2001, Congress approved the first in a series of significant boosts in Pentagon spending. Including the President's supplemental budget for the Iraq War, the Pentagon will spend \$452 billion in fiscal year 2003, a 53 percent increase over the 2000 Pentagon budget. This surge in military spending provides a huge boost to military contractors. Meanwhile, the return of budget deficits is constraining the ability of the federal government to aid the states, which are facing massive cuts in education and health care.



Source: Congressional Budget Office



Source: Congressional Budget Office

A Case Study in War Profits: Halliburton

Halliburton is a singularly well-connected defense contractor. The company's former CEO is Dick Cheney, now Vice President. Lawrence Eagleburger, former U.S. secretary of state under President George H. W. Bush and frequent television commentator on foreign policy issues, sits on the company's board.⁸

On Vice President Cheney's 2001 income tax return, he reported earning \$3 million from Halliburton (\$1.6 million "deferred compensation" plus \$1.4 million "cash bonus"), a sum 17 times as large as his \$174,475 government salary. Of Cheney's total reported income of \$4.3 million in 2001, 70 percent of it came from Halliburton.⁹

Despite the fact that Halliburton is the subject of a formal Securities and Exchange Commission investigation into its accounting practices during Cheney's tenure as CEO, in March, 2003, the company was granted a no-bid, open-ended Army Corps of Engineers contract to fight oil-well fires and reconstruct oil fields in Iraq. The contract could be worth as much as \$9.5 billion over the next 18 months, according to the James A. Baker III Institute for Public Policy at Rice University.¹⁰

Also in March 2003, Halliburton was invited to be one of six companies to submit secret bids for a \$680 million government contract to repair and reconstruct water systems, roads, bridges, schools and hospitals in Iraq. Halliburton later withdrew from the bidding amid allegations that the government was favoring the company due to its close ties to the administration.

However, Halliburton already had a series of other lucrative deals in the pipeline. In December 2001, the Pentagon granted the company an exclusive global logistical supply and construction contract. The contract includes everything from washing clothes to building new bases in Central Asia and lasts for 10 years with no limit on the cost, making it the only logistical arrangement with the U.S. Army that does not have an estimated cost.¹¹ Halliburton will be reimbursed for every dollar spent plus a guaranteed 1 percent profit margin, plus incentive bonuses. Contract expert Steve Schooner, a law professor at George Washington University, described the deal as unprecedented, essentially telling the company to "come up with creative ways to spend my money, and the more you spend, the happier I'll be."¹²

Other big Halliburton contracts include \$2 million to reinforce the U.S. Embassy in Tashkent, Uzbekistan, \$100 million to convert the Subic Bay U.S. Navy base in the Philippines into a modern commercial port, and \$16 million to build the prison for captured Taliban fighters at Guantanamo Bay, Cuba.¹³

However, Halliburton has a checkered past with its Defense Department contracts. In 2002, a federal grand jury investigated charges by an employee

Despite the fact that Halliburton is the subject of a formal SEC investigation into its accounting practices, the company was granted a no-bid, open-ended Army contract to fight oil-well fires and reconstruct oil fields in Iraq.

Estimates before the 2003 Iraq War were that 20,000 employees of private contractors would be deployed in the Persian Gulf — one private citizen for every 10 soldiers.

whistleblower that Halliburton's subsidiary Kellogg, Brown, and Root (KBR) defrauded the government of millions of dollars by inflating prices for repairs and maintenance. The General Accounting Office found that KBR billed the Army for questionable charges, including \$85.98 per sheet of plywood that cost \$14.06, and unnecessarily cleaning some offices as many as four times a day.¹⁴

Despite these abuses, Halliburton has been a key recipient of contracts as the Pentagon accelerates the outsourcing of its functions in the global "war on terror."

As an indication of the new scale and scope of services provided by companies like KBR, estimates before the 2003 Iraq War were that 20,000 employees of private contractors would be deployed in the Persian Gulf — one private citizen for every 10 soldiers. During the first Gulf War, the ratio was 1 to 100.¹⁵

Preventing War Profiteering in the Executive Suite

Excessive CEO compensation is certainly not limited to the defense industry. Even though the stock market crash has brought the highest-flying CEOs back down to earth, the wage gap between CEOs and workers remains huge across all industries. In 2002, the average CEO made 282 times as much as the average worker, up from 42 times as much in 1980. The explosion of CEO pay has mirrored a broader trend toward unsustainably high levels of inequality in the U.S. economy at large.

But the issue of excessive CEO pay does take on extra significance when it comes to defense contractors, because it highlights two vastly different perspectives on war: On the one hand, there is the suffering and fear of the soldiers and civilians in the combat zone. Meanwhile, in plush American boardrooms thousands of miles away, business executives are seeing their personal fortunes increase due in part to increased spending on the military.

For as long as there has been war, there have been people who have profited personally from it. In many ways, the unprecedented government spending of the Civil War helped spawn the modern U.S. corporation, a reality that greatly troubled President Abraham Lincoln. In 1864, he wrote in a letter to Col. William F. Elkins,

“We may congratulate ourselves that this cruel war is nearing its end. It has cost a vast amount of treasure and blood. . . . It has indeed been a trying hour for the Republic; but I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country.

“As a result of the war, corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed.

“I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war. God grant that my suspicions may prove groundless.”¹⁶

During World War II, an obscure Senator from Missouri named Harry Truman made a name for himself by investigating profiteering among military contractors. He preferred the hands-on approach, so he got in his car and traveled around the country to inspect the factories himself.

Whether or not there are any Abraham Lincolns or Harry Trumans in the current Congress remains to be seen. But there are some concrete steps that can

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– President Abraham
Lincoln, 1864

There are some concrete steps that can be taken to prevent an expanded military budget from exacerbating the already historic levels of economic inequality in the U.S.

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1. Appoint a permanent, independent watchdog to oversee military contracting and prevent abuse.

In any kind of emergency, from a flooded basement to a war, the buyer is more or less at the mercy of the contractor hired to solve the problem. During peacetime, financial watchdogs within the Pentagon have more leverage to scrutinize military contracts for waste, fraud, and abuse. During wartime, however, the Pentagon focuses more on winning the war, and the potential for profiteering expands.

The Defense Department and the Agency for International Development should follow the lead of the Federal Emergency Management Agency, which hired a private consulting firm to monitor contractors assigned to do cleanup work at the site of the World Trade Center in Manhattan following the September 11, 2001 attack. The principal of that firm, Thomas Thacher, told the *New York Times*, “Any time you have an emergency response driven by time, the opportunity for fraud, waste, and abuse is huge. And when the opportunity is that great, it will happen.”¹⁷

2. Limit executive compensation at government contractors, including defense firms.

As part of the September 2001 airline bailout, Congress enacted limits on CEO pay as a condition of receiving government assistance. This sensible approach should be expanded to all government contractors, but especially to defense contractors during times of national emergency.

3. End taxpayer subsidies for excessive compensation, whether in cash or stock.

Current law permits tax deductions of “reasonable business expenses.” While the reasonable amount of business entertainment expenses is specified, the tax code is conspicuously silent on reasonable levels of executive pay. In 1993, Congress passed a law that attempted to cap the deductibility of executive pay to a maximum of \$1 million. However, the law only capped “non-performance-based” salaries. In response, many corporations passed resolutions making all compensation above \$1 million “performance-based” and shifted much of their executive pay from base salary to stock options and bonuses supposedly linked to performance.

Rep. Martin Sabo (D-MN) has attempted to close this gaping loophole through his Income Equity Act (H.R. 2691), which would permit corporations to deduct as a “reasonable business expense” all compensation for a given individual that is less than 25 times the pay of the lowest paid worker in the firm.

Notes

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Resources

CEO Pay

BUSINESS WEEK MAGAZINE EXECUTIVE COMPENSATION SCOREBOARD

The annual scoreboard of CEO pay at 365 large corporations.
bwnt.businessweek.com/exec_comp/2003/index.asp

EXECUTIVE PAYWATCH

Compare your own pay to your CEO's pay, learn about CEO pay trends, and find out how to research CEO pay yourself by reading online corporate regulatory filings.
www.aflcio.org/corporateamerica/paywatch

UNITED FOR A FAIR ECONOMY

Publishes annual Labor Day reports on CEO pay, plus a special CEO pay report each spring.
www.FairEconomy.org

Corporations in General

CORPWATCH

Has a series of investigative reports on the military-industrial complex.
www.corpwatch.org

HOOVER'S, INC.

Excellent online directory of public and private corporations.
www.hoovers.com

Defense and Military Issues

ARMS TRADE RESOURCE CENTER

Performs research on the U.S. military spending and the weapons trade.
www.worldpolicy.org/projects/arms

CENTER FOR DEFENSE INFORMATION

Educates and informs the public and policymakers about issues of security policy, weapon systems and defense budgeting.
www.cdi.org

COUNCIL FOR A LIVABLE WORLD

Produces a number of reports on the arms industry.
www.clw.org

DEFENSELINK

The official web site for the Department of Defense.
www.defenselink.mil

DEPARTMENT OF DEFENSE DIRECTORATE FOR INFORMATION OPERATIONS AND REPORTS
Data on the top 100 Defense Department contractors for each year from 1996 through the present.
www.dior.whs.mil/peidhome/procstat/procstat.htm

FOREIGN POLICY IN FOCUS

Recently published a report entitled, “The Military-Industrial Complex Revisited: How Weapons Makers are Shaping US Foreign and Military Policies”
www.foreignpolicy-infocus.org/papers/micr/

PROJECT ON GOVERNMENT OVERSIGHT

Exposes wasteful military spending, the inappropriate influence that contractors wield over government decision-making, and weapons that do not work.
www.pogo.org/p/defense/defsubmain.html

Campaign Finance

CENTER FOR RESPONSIVE POLITICS

Non-partisan, non-profit research group that tracks money in politics and its effect on elections and public policy.
www.opensecrets.org

Federal Budget

CONGRESSIONAL BUDGET OFFICE

Produces policy analyses, cost estimates for federal programs and tax proposals, and budget projections.
www.cbo.gov

NATIONAL PRIORITIES PROJECT

Offers citizen and community groups tools and resources to shape federal budget and policy priorities
www.natprior.org

TAXPAYERS FOR COMMON SENSE

TCS has conducted research into the actual costs of the Iraq War.
www.taxpayer.net

Government Oversight

CENTER FOR PUBLIC INTEGRITY

Provides investigative reports and analyses of public service, government accountability and ethics related issues.
www.publicintegrity.org

GENERAL ACCOUNTING OFFICE

The General Accounting Office is the audit, evaluation, and investigative arm of Congress.
www.gao.gov

SUSTAINABLE ENERGY AND ENVIRONMENT NETWORK

Recently published a report about Bechtel and its role in Iraq entitled “Crude Visions.”
www.seen.org

Corporate Accountability Resources from United for a Fair Economy

The reports listed below are available online at www.FairEconomy.org.

Executive Excess 2002: CEOs Cook the Books, Skewer the Rest of Us. Finds that CEOs of companies under investigation for accounting irregularities earned 70 percent more from 1999 to 2001 than the average CEO at large companies.

Titans of the Enron Economy: The 10 Habits of Highly Defective Corporations, April, 2002. This prescient report showed how many of the problems dramatically revealed by the Enron scandal are woven tightly into the fabric of American business. It ranked the worst companies in 10 areas and gave Enny Awards to companies with Enronesque behavior, including General Electric, Citigroup, AOL TimeWarner, WorldCom and Halliburton. Includes 12-step program for breaking Enronesque habits.



Executive Excess 2001, August, 2001. Among the findings: Job-cutting CEOs made higher than average salaries in 2000 amid layoffs and a slumping stock market. CEOs at companies that paid zero corporate taxes got larger raises than the average CEO.

The Bigger They Come, The Harder They Fall, April, 2001. A seven-year survey of the dismal financial return to investors in companies with high CEO pay.

Executive Excess 2000, August, 2000. Updates the decade-long trends in CEO pay, charts the explosion in executive pay at dot-com companies, and highlights the huge, and growing gap in pay between private-sector CEOs and their counterparts in the federal government.

A Decade of Executive Excess: The 1990s, September, 1999. This edition focused on major trends of the decade, economic arguments against exorbitant CEO pay, the most undeserving CEOs of the decade, and a survey of what can be done.

Executive Excess 1998: CEOs Gain From Massive Downsizing, April, 1998. Focuses on layoff leaders, international banking executives, job-shifters to Mexico, and the citizens' response to runaway executive pay.

Executive Excess 1997: CEOs Gain From Massive Downsizing, May, 1997. Focuses on layoff leaders and efforts to close the wage gap.