



Post-9/11 Economic Windfalls for Arms Manufacturers

By Michelle Ciarrocca, Arms Trade Resource Center

President Bush's military budget increase and the war time "unity" on Capitol Hill have created an environment in which weapons makers can enjoy the best of both worlds—continuing to make money on the weapons systems of the cold war while reaping the benefits of a war time bonanza of new defense contracts.

In order to replace weapons used in Afghanistan and in preparation for possible military action in Iraq, many U.S. weapons makers have increased production. Boeing added a second shift of workers to boost production of its Joint Direct Attack Munitions (JDAMs)—the most widely used smart bomb in the Afghan war. Raytheon, best known for its Tomahawk missile, added a third shift and announced that production for its laser-guided bomb has been accelerated by five months "to support the warfighter in the war on terrorism." Alliant Techsystems, the largest supplier of ammunition to the U.S. military, was awarded a \$92

million contract to make 265 million rounds of small-caliber ammunition for the Army.

Additionally, with the new influx of money for homeland defense (\$38 billion for FY 2003), virtually all of the big defense contractors—Boeing, Lockheed Martin, and Raytheon—have adapted their marketing strategies and are repackaging their products for use in domestic security. Boeing is looking into how its sensors designed to track enemy missiles could be used to locate and identify hijacked planes. Lockheed is trying to adapt military simulators to

train local emergency response teams. And Raytheon is pitching its hand-held thermal-imaging devices, designed for the military, as useful for fire fighters searching through collapsed buildings.

But it's not just the traditional military contractors who are fighting for a piece of the Pentagon pie. Smaller companies, too, are "dusting off old domestic security proposals and developing new ones in an attempt to cash in on what they hope will ultimately be hundreds of billions of dollars in new spending on homeland security," according to *The Wall Street Journal*. Air Structures is introducing fortified vinyl domes for quar-

antining infected communities in the aftermath of a potential bioterror attack, Visionics is looking into designing facial recognition technology, and PointSource Technologies is developing a sensor to detect biological agents in the air or water.

In July, the world's top defense contractors gathered in the United Kingdom for the Farnborough International Air Show, which convenes CEOs, generals, and heads of state every two years. At the last show \$52 billion in orders were announced. Although contractors didn't anticipate that much this time around, they were keen to show off the latest developments in antiterror weapons and homeland defense.

Raytheon showcased its role in missile defense and precision strike munitions. Boeing exhibited its tried-and-true 767 tanker transport, its C-17 Globemaster, and its JDAM—all of which have been on display in Afghanistan. TRW, Northrop Grumman, Lockheed Martin, and Boeing all focused on new approaches to developing unmanned aerial vehicles (UAVs), another star weapon of the Afghan war.

The big boost in the defense budget is good news for major Pentagon contractors, who were among the few companies to show increases in their stock prices when the market reopened after the September 11 attacks. Among the top gainers for the week of September 17-21, 2001, were military and space contractors like Raytheon (+37%), L-3 Communications (+35.8%), Alliant Techsystems (+23.5%), and Northrop Grumman (+21.2%).

As of May 1, 2002, *Aviation Week's* Aerospace 25 stock index had climbed past the level at which it was trading in May 2001 and compared favorably to the 5.4% decline for Standard & Poor's 500. Northrop, Boeing, and General Dynamics all reported better-than-anticipated earnings for the second quarter of 2002, due to increases in weapons spending and homeland security. And with expected annual increases in defense spending of 10% or more, most analysts are banking on a gradual, long-term boost for the defense industry. As Loren Thompson, a defense analyst with the Lexington Institute remarked: "The whole mind set of military spending changed on Sept. 11. The most fundamental thing about defense spending is that threats drive defense spending. It's now going to be easier to fund almost anything."

Key Points

- In the wake of September 11, President Bush requested the largest increase in defense spending in two decades.
- The potential for an open-ended war poses great opportunities for weapons makers and great challenges for those who seek to curb wasteful military spending.
- Major defense contractors are figuring out new ways to tap into the homeland defense market.

Problems with Current U.S. Policy

Despite a slowing economy and Bush's \$1.35 trillion tax cut, notions of fiscal conservatism have been brushed aside to fund the fight against terrorism. Boeing Vice Chairman Harry Stonecipher got to the heart of the matter when he told *The Wall Street Journal* that "the purse is now open," so the Pentagon will no longer have to make "hard choices" among competing weapons projects. Unfortunately, no hard choices were being made in the first place.

The highly anticipated Quadrennial Defense Review (QDR), an assessment of the nation's defense needs mandated by Congress, was released September 30, 2001. But as Senate Armed Services Committee Chairman Carl Levin (D-MI) quickly noted, the QDR "seems to me to be full of decisions deferred." None of the weapons systems mentioned as a candidate for elimination during the Bush campaign was canceled. Instead, Defense Secretary Rumsfeld set the stage for major increases in military spending, arguing that "the loss of life and damage to our economy from the attack of September 11, 2001, should give us a new perspective on the question of what this country can afford for its defense."

Defense spending for FY 2002 totaled \$343.2 billion, a \$32.6 billion increase above 2001 levels. Congress just recently finished the FY 2003 defense bill and sent it to President Bush for his signature. When all defense related bills are added up, this year's military budget will reach almost \$400 billion. Long-term plans envision the national defense budget increasing to \$469 billion in FY 2007, 11% higher than the cold war average.

The most widely used items in Afghanistan to date have been Raytheon's Tomahawks, Boeing's JDAMs, and Northrop Grumman's UAVs. But only about \$3.2 billion in the president's budget request will go for more of these systems. Much of the new Pentagon funding will be used to bankroll longstanding pet projects of the military-industrial lobby. In fact, more than one-third of the Pentagon's FY 2003 \$68 billion procurement budget will be allocated to big-ticket, cold war-era systems that have little or nothing to do with the war on terrorism.

Although many analysts had assumed that defending against long-range ballistic missiles might take a back seat to other more urgent defense priorities in the wake of September 11, the Bush administration has moved full speed ahead with missile defense. Spending on missile defense increased by 43% in FY 2002, and the Bush administration plans to spend at least \$32.7 billion on the missile defense program between now and 2005. Total costs for the deployment and maintenance of a multitiered system could top \$200 billion over the next two decades.

Despite campaign promises by President Bush to "skip a generation" in weapons procurement, all three of the Pentagon's advanced fighter plane programs are moving forward. This year alone, close to \$12 billion will be allocated to the Air Force's F-22 Raptor, the Joint Strike Fighter/F-35, and the Navy's F-18E/F fighter plane. The F-22 has been described as a costly cold war relic designed for an enemy that no longer exists. The Super Hornet, as the F-18E/F is known, has not been able to

meet key performance goals that were used to justify its development. The JSF (also called the F-35) was viewed as a likely program to be cut or scaled back, but within weeks of September 11 Lockheed Martin was awarded a \$19 billion development contract, and international partners signed on.

The debate over the Crusader artillery system indicates just how difficult it is to cancel a weapons system. Both President Bush and Defense Secretary Rumsfeld criticized the \$11 billion Crusader program for being outmoded, because it was designed to fight a land war with the Soviet Union. However, the Army—and members of Congress from Oklahoma, Minnesota, and a dozen other states where parts of the Crusader would be built, put up a tough fight. And for the moment, they seem to have won. Although the Pentagon did officially terminate the program in May, there's still \$475 million in the 2003 budget for the Crusader system. As Congress puts the finishing touches on the defense bill, it is expected that the money will go to the Army to develop alternative artillery systems.

The failure of policymakers and defense officials to cancel unnecessary weapons programs is, in large part, due to the undue influence exerted by the top defense contractors. More than any administration in history, the Bush team has relied on the expertise of former weapons contractors to outline U.S. defense needs. Thirty-two major Bush appointees are former executives, consultants, or major shareholders of top weapons contractors. Seventeen administration appointees had ties to major defense contractors Lockheed Martin, Northrop Grumman, or Raytheon prior to joining the Bush team. These include former Lockheed Chief Operating Officer Peter B. Teets, now undersecretary of the Air Force and director of the National Reconnaissance Office; Secretary of the Air Force James Roche, a former Northrop Grumman vice president; and Secretary of the Navy Gordon England, a former General Dynamics vice president. The theory behind Rumsfeld's reliance on former corporate executives is that they would be more willing to cut costs and try new approaches than the average Pentagon bureaucrat. However, that clearly has not been the case.

The geopolitical reach of the defense megafirms is reinforced by millions of dollars in campaign cash. In 2000 the top six military companies spent over \$6.5 million in contributions to candidates and political parties. In addition to these hefty campaign donations, defense contractors spent an astonishing \$60 million on lobbying in 2000, the most recent year for which full statistics are available.

Key Problems

- The increases in defense spending due to September 11 have allowed the Pentagon to avoid reform and transformation.
 - More than one-third of the Pentagon's \$68 billion weapons procurement budget for this year will go to big-ticket, cold war-era weapons systems.
 - The failure of policymakers and defense officials to cancel unnecessary weapons programs is, in large part, due to the undue influence exerted by the top defense contractors.
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Toward a New Foreign Policy

Instead of seizing the historic moment to establish new defense priorities after September 11, the Bush administration appears to be doing exactly what candidate Bush promised not to do—funding two military strategies at once, one for the cold war and one for the future. A recent *Defense News* article noted: “Unfortunately, the Pentagon is still dominated by cold warriors, obsessed with big, expensive weapons programs. Congress is still addicted to the jobs and political contributions that can

only come from defense contractors with massive hardware programs ... At the Pentagon, specific personnel changes are required, in particular closing the revolving door that rewards senior military leaders with the promise of future civilian employment if they ‘play the game.’”

The potential for conflicts of interest involving former weapons industry executives and their former companies has

been substantially increased as a result of Defense Secretary Rumsfeld’s corporate management style, which one Pentagon insider has described as “Department of Defense, Inc.” These links between the Bush administration and arms manufacturers raises a critical question: If the majority of top policymakers have longstanding ties to the companies that will benefit from increases in military spending, who will represent the public interest? At a time when corporate scandals are making headlines, the administration’s reliance on individuals with ties to the arms industry deserves far greater scrutiny than it has received to date.

Another logical approach to retooling the Pentagon would be to set some real priorities. Canceling systems like the costly F-22 fighter plane, the bulky Crusader artillery system, and the administration’s fantastic missile defense program—all of which seem largely irrelevant to dealing with low-tech threats like the September 11 attacks—would be a good place to start. To do so means challenging not only Pentagon planners but also members of Congress who are wedded to their states’ military projects. One senator who’s been willing to do just that is Republican John McCain of Arizona. Year

after year, McCain points out the billions of dollars of pork barrel projects tagged on to the defense bill. This year alone, the Defense Appropriations Bill includes \$5.2 billion for 581 programs not requested by the president and unrelated to the war on terrorism. This vicious circle of pork barrel politics and special interest money has been a regular feature of defense budget politics for decades, resulting in higher levels of Pentagon spending than might be justified by an objective assessment of the security threats facing the United States. Unfortunately, few members of Congress have been willing to challenge the status quo like McCain.

Beyond the issue of whether it funds too many obsolete systems, the Bush administration’s war budget raises a more fundamental question: Is the use of military force likely to solve the problem of terrorist violence? There needs to be a much more vigorous national debate about how best to protect Americans and prevent violence against civilians, both in the U.S. and around the world.

Washington’s policies must promote, rather than undermine, human rights and democratic institutions abroad. The narrow, military focus of the Bush administration can be seen most vividly when comparing the FY 2003 military budget request of \$396 billion to the \$25 billion requested for international aid. The administration’s unwillingness to increase spending on diplomacy or foreign economic aid underscores the extent to which it is treating the war on terrorism as primarily a military enterprise, in which the U.S. rounds up a series of ad hoc “posses” to go after the enemy of the moment. This go-it-alone attitude is at least as dangerous as the military buildup that is being justified in the name of fighting terrorism.

As former Secretary of State Madeleine Albright noted recently, foreign aid should be thought of not as a gift that the rich give to the poor but as something that enriches poor and rich nations alike. Foreign aid, she continued, should be retermed “national security support,” recognizing how successful it could be at dismantling the real “axis of evil”—poverty, desperation, and disease—that is often a root cause of terrorism.

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Key Recommendations

- Efforts to reform the military should not be abandoned because of 9/11.
- The Pentagon and Congress must set real defense priorities, not just throw money around under the guise of fighting terrorism.
- Washington’s policies must promote, rather than undermine, human rights and democratic institutions abroad.

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